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Supreme Court, U.S.
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No. 92-

IN THE
Supreme Court of the United States
OCTOBER TERM, 1992

THE QUAKER OATS COMPANY,

Petitioner,

v.

SANDS, TAYLOR & WOOD COMPANY

Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Seventh Circuit

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PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether the Lanham Act's two-year statutory period for presumptive trademark abandonment permits subsequent events to resuscitate trademark rights where the owner of the mark has admitted it had no intent to resume use and the mark had not been used in a relevant market for more than two years?

2. Whether a defendant that lacks any intent to trade on a plaintiff's good will and reputation and does not intend to cause confusion may nonetheless be acting in bad faith within the meaning of the Lanham Act?

3. Whether Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), which requires that all awards of damages or profits "shall constitute compensation and not a penalty," authorizes a purely deterrent-based monetary award where plaintiff sustained no damages and the defendant did not engage in fraud, palming off, or trading on plaintiff's good will?

PARTIES TO THE PROCEEDING

All parties to the proceeding in the court of appeals are identified in the caption. Pursuant to Supreme Court Rule 29.1, petitioner states there are no parent or subsidiary companies to be listed.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner The Quaker Oats Company ("Quaker"), petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Seventh Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-38a) is reported at 978 F.2d 947. The posttrial opinion of the district court (App., *infra*, 54a-111a) is reported at 18 U.S.P.Q.2d 1457; the other opinions of the district court (App., *infra*, 43a-53a, 112a-125a) are not reported.

JURISDICTION

The judgment of the court of appeals was entered on September 2, 1992. App., *infra*, 39a-40a. The petition for rehearing was denied on November 25, 1992. App., *infra*, 41a-42a. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).[1]

STATUTES INVOLVED

Section 35(a) of the Lanham Act, as amended, 15 U.S.C. § 1117(a), provides in pertinent part:

> When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 1125(a) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1)

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[1] The jurisdiction of the district court rested on 15 U.S.C. § 1121 and 28 U.S.C. § 1338. The court of appeals had appellate jurisdiction pursuant to 15 U.S.C. § 1121 and 28 U.S.C. § 1291.

defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost of deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

Section 45 of the Lanham Act, as amended, 15 U.S.C. § 1127, provides in pertinent part:

A mark shall be deemed to be "abandoned" when either of the following occurs:

(1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from the circumstances. Nonuse for two consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the bona fide use of that mark made in the ordinary course of trade, and not made merely to reserve a right in the mark.

INTRODUCTION AND STATEMENT OF THE CASE

In its construction of the Lanham Act in this case, the decision of the court of appeals exposes significant conflicts and doctrinal tension among the circuits on basic tenets of trademark law that warrant this Court's review. The Seventh Circuit rejected the legal standards and analysis employed by other courts of appeals by authorizing a windfall award of profits to be conferred upon a plaintiff that suffered no damage or harm and by permitting a penalty to be imposed unjustly on a defendant that had no intent to trade on plaintiff's goodwill or reputation. In short, the decision below rewards a plaintiff that acquired for one dollar a weak, warehoused trademark and punishes a defendant whose advertisements contained a phrase that aptly describes a significant attribute of Quaker's GATORADE brand thirst quencher.

The decision below reveals the great distance some courts have traveled from the purposes of the Lanham Act. Because, as the court below acknowledged, the decisions of the courts of appeals do not provide uniform guidance on controlling questions of trademark law, review by this Court is needed in this important area of commercial practice.

Factual Background. In 1973, respondent Sands, Taylor & Wood Company ("STW"), a seller of bagged flour, acquired Joseph Middleby, Jr., Inc. ("Middleby"), a manufacturer of syrups for soft drinks, soda fountain and ice cream toppings. Middleby owned three federal trademark registrations that include the words "THIRST-AID" for use on soft drinks and syrups therefor,

soda fountain syrups, ice cream toppings, and fruits and sauces used in making ice cream. App. *infra*, 2a. By the late 1970s, Middleby's sales of THIRST-AID products declined substantially as consumers turned to bottled and canned soft drinks rather than soda fountain drinks. *Id.* at 3a. By 1980, the words THIRST-AID had not been used to market a beverage at retail for several years. *Id.* at 20a.

In the spring of 1980, STW negotiated a license permitting Pet, Inc. ("Pet") to use the THIRST-AID name on an isotonic beverage. *Id.* at 3a. From June to November 1980, Pet conducted a five-month test marketing of a THIRST-AID product in 20 stores in Columbia, South Carolina, but ultimately decided not to introduce the product. *Id.* at 3a-4a.

In December 1981, more than a year after Pet's brief test marketing concluded, STW sold Middleby's assets, including its three THIRST-AID registrations, to L. Karp & Sons ("Karp"), a distributor of bakery products. *Id.* at 4a. The undisputed evidence showed that when it acquired these assets Karp had no intention to use the THIRST-AID mark in connection with a soft drink or beverage. *Id.* at 18a. Karp used the name Thirst-Aid only on bulk containers of ice cream toppings sold to institutional consumers; those containers also bore Karp's house trademark, MURRAY'S. *Id.* at 63a.

In August 1983, Quaker acquired Stokely-Van Camp Company, which manufactured GATORADE brand isotonic beverages. *Id.* at 4a. Shortly thereafter, Quaker began developing a new advertising campaign intended to educate consumers about GATORADE'S ability to quench thirst and to replace fluids and minerals depleted by strenuous exercise. *Id.* One of the candidates for this

campaign was the slogan "GATORADE IS THIRST AID FOR THAT DEEP DOWN BODY THIRST." *Id.*

In February or March 1984, pursuant to its regular and established practice, Quaker submitted the proposed advertising campaigns to its legal department. *Id.* at 4a. Quaker's in-house legal counsel concluded that the proposed slogan used the words "THIRST AID" to describe an attribute of GATORADE brand products rather than to designate the source or affiliation of the product. *Id.* That was also the opinion of Quaker's outside trademark counsel. *Id.* at 5a-6a.

Quaker's television ads using the slogan "GATORADE IS THIRST AID FOR THAT DEEP DOWN BODY THIRST" first appeared on May 12, 1984. *Id.* at 5a. Several weeks later, Quaker was contacted by a representative of Karp, and then by STW, each claiming ownership of the THIRST-AID registrations. *Id.* at 5a-6a. After unsuccessfully trying to interest Karp in filing suit against Quaker, STW paid Karp $1 for a reassignment of Karp's three THIRST-AID marks. *Id.* at 6a.

District Court Proceedings. In September 1984, one week after it obtained the marks from Karp for $1, STW filed suit against Quaker, alleging that STW's newly-acquired trademark rights were being infringed by the GATORADE advertising slogan.[2] *Id.* at 67a-68a. The complaint invoked a variation on the "reverse confusion"

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[2] The complaint alleged infringement and unfair competition under the Lanham Act, 15 U.S.C. § 1051 *et seq.*, common law and various state statutes. At trial, STW stated that all its claims were subsumed by the federal statutory claim and the district court decided only that claim. App., *infra*, 54a-55a.

theory of trademark liability. *Id.* at 68a. Ordinarily, reverse confusion means that the senior user of the mark is harmed by the junior user because consumers come to assume that the senior user's products are really those of the junior user. *Id.* at 22a.[3] Because STW had no product in the marketplace (or about to be introduced into the marketplace) it relied on a theory of **future** reverse confusion, *viz.*, that should it ever bring a Thirst-Aid product to market, the public might assume that STW's product originated with Quaker. *Id.* at 68a.

Following a bench trial, the district court held that Quaker had infringed STW's trademark rights.[4] *Id.* at 100a. The court rejected Quaker's defense that STW's trademark rights had been abandoned through longstanding nonuse. *Id.* at 68a-82a. On the merits of STW's infringement claim, the court found "[t]here was no evidence of actual confusion by consumers" between GATORADE and any product using the name THIRST-AID. *Id.* at 89a. The court acknowledged that the beverage briefly testmarketed by Pet "had not been used at retail for years" and, therefore, would not be found by consumers "in the current marketplace." *Id.* at 92a-93a.

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[3] This contrasts with the traditional case of "forward confusion," where the mark owner claims injury because consumers mistakenly believe the junior user's goods or services are those of the mark owner. *Id.* at 21a-22a.

[4] Prior to trial, the district court entered summary judgment against Quaker on its defense that the slogan described the thirst-quenching quality of Gatorade and constituted fair use (a statutory defense under the Lanham Act). *Id.* at 112a-125a. While acknowledging that it was a "close issue," the district court held as a matter of law that the opinion on descriptiveness that Quaker received from its trademark counsel was incorrect. *Id.* at 119a, 122a.

Moreover, the court found it "inconceivable that any consumer would or could confuse" Quaker's advertising slogan for GATORADE with Karp's use of the words THIRST-AID on its institutional bakery toppings products. *Id.* at 93a. Despite the nonuse of the trademarks on any product in the relevant current marketplace with which the GATORADE slogan could be confused, the district court found infringement.

The court also ruled that Quaker acted in bad faith, although it found "no evidence that defendant intended to trade on plaintiff's good will or reputation." *Id.* at 96a. The court further concluded that Quaker failed to satisfy the "duty to avoid the possibility of confusion" (*id.* at 99a) and the "duty to ensure . . . that its campaign would not imitate an existing mark" (*id.* at 100a). Invoking these standards, the court held that Quaker's "indifference to plaintiff's federal trademark rights" constituted bad faith. *Id.*

Turning to the issue of relief, the district court rejected all claims for actual damages because STW "has not presented any evidence of lost sales or profits," only "conjectural lost business opportunities" that did not constitute actual harm. *Id.* at 105a-106a. The court also rejected STW's claim for a reasonable royalty, finding that STW had failed to present evidence from which such a royalty could be calculated. *Id.* at 109a n.12. Further, the court found there was no evidence that STW's reputation had been harmed by Quaker and, therefore, no basis upon which to award damages for corrective advertising. *Id.* at 106a-108a. Although it rejected all claims for

compensatory damages,[5] the district court awarded to STW 10% of Quaker's pretax profits on GATORADE, prejudgment interest exceeding $10 million, and attorney's fees, and it enjoined Quaker's further use of the words THIRST AID. *Id.* at 111a. The total monetary award exceeded $42 million. *Id.* at 51a.

Court of Appeals Proceedings. The Seventh Circuit affirmed the finding of liability, vacated the award of profits and remanded for recalculation of profits in accordance with principles set forth in its opinion.

On the issue of infringement, the Seventh Circuit recognized as actionable a claim of likelihood of reverse confusion in the future, *viz.*, potential confusion between Quaker's advertising slogan for GATORADE and some unspecified product that might be introduced or licensed by STW to use the name THIRST-AID. *Id.* at 23a. Although it acknowledged that the Pet testmarketed product was not currently on the market and had not been for many years, the court considered that long-discontinued product "a fair representation of what an isotonic beverage marketed by STW or its licensee would look like." *Id.* at 25a.

With respect to Quaker's intent, the court concluded that "the evidence of bad faith in this case is . . . pretty slim" (*id.* at 32a), "marginal at best" (*id.* at 35a), and that "[n]one of [the facts found by the district court] is particularly good evidence of bad faith" (*id.* at 32a). Moreover, the court explained that key facts upon which the district court based its finding of bad faith were

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[5] STW did not cross-appeal from the dismissal of its claims for compensatory damages.

generally indicative of good faith. *Id.* at 33a, 34a. Nonetheless, the court affirmed the determination of bad faith. *Id.* at 34a.

On the abandonment issue, the court of appeals held that Karp's unequivocal and undisputed intent not to use the registrations on a beverage had no legal significance. *Id.* at 17a-18a. In the court's view, Quaker "misse[d] the point" in arguing that such an unambiguous declaration by the trademark owner conclusively establishes abandonment. *Id.* at 18a. Instead of treating Karp's admission of abandonment as dispositive, the court focused on the statutory presumption of abandonment that arises after two years of nonuse. *Id.* This presumption was rebutted, the court held, by Karp's entry into an agreement in September 1983 (1-1/2 years after acquiring the marks and almost 3 years after their last use on a beverage, *i.e.*, the 1980 Pet test) with a consultant who thereafter attempted unsuccessfully to sell or license the marks.[6] *Id.*

Although it vacated the particular award of profits for "a more precise determination," the court of appeals expressly held that profit disgorgement is an available remedy in a reverse confusion case even where, as the district court found, there is no actual confusion, the trademark owner suffered no injury or damages (*id.* at 105a-106a), and the defendant did not engage in any fraud, palming off, or misappropriation of the trademark

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[6] The court also held that the district court had employed an incorrect legal standard for "descriptiveness" in rejecting Quaker's fair use defense. *Id.* at 9a-12a. Nonetheless, the Seventh Circuit affirmed the district court's grant of summary judgment on that defense. *Id.* at 14a-15a.

owner's good will. *Id.* at 22a, 30a, 35a n.19. In rejecting Quaker's argument that an award of profits is permitted only where the defendant has been unjustly enriched by misappropriating the plaintiff's good will, the Seventh Circuit recognized that other courts of appeals have held to the contrary, and acknowledged that Quaker's argument is "perhaps more logical." *Id.* at 31a-32a.

REASONS FOR GRANTING THE PETITION

The opinion below conflicts with decisions of this Court and other courts of appeals on issues of trademark law that have serious practical and jurisprudential ramifications. In at least three significant respects the decision of the Seventh Circuit distorts policies of the Lanham Act in ways that impede competition in the marketplace. By permitting a finding of bad faith absent an intent to trade on the mark owner's good will or reputation, the decision below squarely conflicts with the recent decision of the Second Circuit in *W.W.W. Pharmaceutical Co. v. The Gillette Co.*, No. 92-7718, 1993 WL 11714 (2d Cir. Jan. 22, 1993). By permitting an award of profits in favor of a plaintiff that, as the district court found, suffered no actual harm or injury, the decision below wrenches the Lanham Act remedy from its stated policy mooring and condones awards based solely on deterrence, in contrast to decisions of the First, Second, Third, Fifth, Sixth, Ninth and District of Columbia Circuits. By permitting a trademark owner to resuscitate an abandoned trademark, the decision below promotes the warehousing of registrations in conflict with decisions of the Second, Fifth, Eighth and Eleventh Circuits.

The errors of the decision below on the bad faith issue, the deterrence rationale for an award of profits and the abandonment defense stem from a common source: the court of appeals' failure to perceive that the Lanham Act is designed to protect a trademark owner's goodwill derived from use of a trademark on a product or service. In thus misperceiving the statute, the decision below conflicts with decisions of this Court and other court of appeals and poses an unavoidable dilemma for companies that market products nationwide and promotes forum-shopping.

Unless the decision below is reversed, the nationwide uniformity Congress intended to create for federal trademark registrations will be lost since conduct that would give rise to no liability in some circuits would be subject to draconian sanctions elsewhere. Marketing and advertising decisionmakers now lack necessary guidance on whether words and phrases that would be freely available for use under the decisions of some courts of appeals, nonetheless remain the property of trademark owners who have not used the mark for many years, as the Seventh Circuit held. The practical importance of that dilemma is underscored by the portion of the decision below that authorizes disgorgement of profits for no remedial purpose other than "deterrence." Since these issues have a direct and immediate impact on the way products are offered for sale to consumers across the land, the questions presented in this case are not limited to the parties, or even to certain industries or segments of the economy. The issues pose broad policy questions under the Lanham Act and vexing practical questions that have a sweeping effect on the marketplace.

I. THIS CASE RAISES IMPORTANT QUESTIONS OF LAW REGARDING THE WAREHOUSING OF UNUSED TRADEMARKS IN CONTRAVENTION OF THE ABANDONMENT PROVISIONS OF THE LANHAM ACT AND CONTRARY TO DECISIONS OF OTHER COURTS OF APPEALS

The Seventh Circuit affirmed the finding of infringement in circumstances where other circuits would hold that the trademark owner had abandoned its rights altogether. By the very statutory definition, trademark rights derive from the use of a mark in connection with goods or services, and not from mere adoption or registration. 15 U.S.C. § 1127. Unlike statutory copyrights or patents, trademark rights are not rights "in gross or at large." *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918). Accordingly, a trademark is "property" in the sense that it is a symbol of good will in an existing business use. *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412-14 (1916); *see Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924). Consistent with these principles, the Lanham Act provides that a mark is abandoned as a matter of law when it is not being used and the mark owner has no intention to resume using it. *See* 15 U.S.C. § 1127. This provision is specifically designed to prevent "warehousing of marks" which, the courts recognize, "impedes commerce and competition." *Silverman v. CBS*, 870 F.2d 40, 46 (2d Cir.), *cert. denied*, 492 U.S. 907 (1989). *See Ambrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1550 (11th Cir. 1986), *cert. denied*, 481 U.S. 1041 (1987); *Exxon Corp. v. Humble Exploration Co.*, 695 F.2d 96, 102-03 (5th Cir. 1983).

The decision below rejects these principles. The Seventh Circuit deemed totally irrelevant the undisputed evidence of Karp's abandonment in 1981 -- *viz.*, Karp's

acquisition of the mark with no intent to use it on a beverage. App., *infra*, 18a. Although the Seventh Circuit dismissed Quaker's abandonment defense based on this undisputed record with the observation that it "misses the point," the decisions of other courts establish that this is a critical point in analyzing trademark abandonment. *Silverman v. CBS*, 870 F.2d at 46; *Exxon v. Humble*, 695 F.2d at 102.

Moreover, Section 45 of the Lanham Act expressly provides that a mark is abandoned when "its use has been discontinued with intent not to resume such use" and creates a presumption of abandonment upon two consecutive years of nonuse. 15 U.S.C. § 1127. That statutory period began with the last use of THIRST AID on a beverage (the short-lived Pet testmarketing that concluded in November 1980) and the period expired two years later (November 1982). There was no evidence in the record of any use or intent to use the mark during that period either by STW (prior to the assignment to Karp) or by Karp thereafter. Thus, as of November 1982, the mark was abandoned and could not be revived by subsequent events, as courts of appeals other than the Seventh Circuit have held. *Cerveceria Centroamericana, S.A. v. Cerveceria India, Inc.*, 892 F.2d 1021, 1027 (Fed. Cir. 1989). Other courts of appeals recognize that "rights, lost as a result of an abandonment, are not revived by a subsequent use." *Ambrit, Inc. v. Kraft, Inc.*, 812 F.2d at 1551 nn. 111 & 112, citing *Conwood Corp. v. Loews Theatres, Inc.*, 173 U.S.P.Q. 829 (Trademark Tr. & App. Bd. 1972). Rather, resumptions of activity following abandonment "represent a new and separate use, and cannot serve to cure its abandonment during the period when [an intervening party] commenced its use of the mark." *Cerveceria Centroamericana*, 892 F.2d at 1027; *Parfums Nautee Ltd. v.*

American Int'l Indus., 22 U.S.P.Q.2d 1306, 1310 (Trademark Tr. & App. Bd. 1992).

Under the standard utilized by the Seventh Circuit, however, the expiration of the two-year statutory period was not dispositive because of Karp's actions "1 1/2 years after acquiring the marks." App., *infra*, 18a. The court of appeals simply tolled the two-year statutory period until Karp's acquisition of the mark, deeming irrelevant STW's full year of nonuse preceding the Karp transaction. In contrast, the Eighth Circuit has held that a first owner's activities prior to assignment of trademark registrations is determinative of the abandonment issue. *Hiland Potato Chip Co. v. Culbro Snack Foods, Inc.*, 720 F.2d 981, 984 (8th Cir. 1983). *See also First Nat'l Bank v. Autoteller Sys. Service Corp.*, 9 U.S.P.Q.2d 1740, 1742-43 (Trademark Tr. & App. Bd. 1988).

The decision below allows owners of unused registrations to avoid the two-year period for presumption of abandonment by transferring marks and, thus, restarting the statutory clock. The STW-to-Karp-back-to-STW-for-$1 transfer and re-transfer of the mark shows just how the judgment in this case promotes the warehousing of unused marks. The competitive consequences of that decision, with the inevitable implication of First Amendment concerns that arise whenever one party can prevent another's use of certain words or phrases, warrant this Court's review.

II. THIS CASE RAISES IMPORTANT QUESTIONS OF LAW REGARDING THE PROPER STANDARD FOR ASSESSING BAD FAITH, AN ISSUE ON WHICH THE COURTS OF APPEALS ARE SPLIT

In affirming the judgment on liability and permitting an award of profits remedy where the defendant had no intent to trade on plaintiff's goodwill, the decision below rejected the "bad faith" standard that prevails in six other courts of appeals. In contrast to more discerning opinions recognizing that the only relevant "bad faith" inquiry is whether the defendant intended to appropriate the plaintiff's good will associated with its trademark, the decision below affirmed the district court's ruling that mere "indifference" to plaintiff's rights constituted bad faith. In so holding, the decision below expressly acknowledged and rejected the rule applied in other circuits. The court thus cemented a split in the circuits on an issue that has serious and important ramifications for the uniform application of the Lanham Act and for all participants in commercial markets. That split has become even more pronounced in light of the Second Circuit's recent decision in *W.W.W. Pharmaceutical* and should be resolved by this Court.

In enacting the Lanham Act, Congress declared its goal to make actionable "the deceptive and misleading use of marks," "to prevent . . . unfair competition," and "to prevent fraud and deception." 15 U.S.C. § 1127; *see* S. Rep. No. 1333, 79th Cong., 2d Sess. 5 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274. Consistent with this objective, the Second Circuit explained in *W.W.W. Pharmaceutical* that the Lanham Act "seeks to prevent consumer confusion that enables a seller to pass 'off his goods. . . .'" 1993 WL 11714 at *7 (citation omitted). It is, thus, the intent to trade on another's good will by fomenting

confusion that is the essential predicate for a finding of bad faith. Accordingly, on a record indistinguishable from the record below on the issue of bad faith, the Second Circuit held that "WWW has not put forth any evidence that Gillette intended to promote confusion between the products or appropriate WWW's good will **and therefore has not shown any bad faith** on Gillette's part." *Id.* at *8 (emphasis added).[7]

The analytical gulf between *W.W.W. Pharmaceutical* and the decision below is further evidenced by the Second Circuit's recognition that "[g]ood faith can be found if a defendant has selected a mark which reflects the product's characteristics, has requested a trademark search or has relied on the advice of counsel." *Id.* at *8. As the Seventh Circuit acknowledged, Quaker established all three indicia of good faith. Despite the presence of all three classic beacons of good faith -- and the stipulated absence of an intent to trade on plaintiff's good will or reputation -- the court considered evidence that is as irrelevant to the correct legal standard as it is "weak," "slim" and "marginal." Under the standard employed by the Second Circuit, that inquiry is inconsistent with the proper analysis of bad faith.

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[7] *W.W.W. Pharmaceutical* involved a claim of reverse confusion by a manufacturer alleging that Gillette's use of the name Sport Stick on Right Guard deodorant infringed plaintiff's trademark Sportstick used on lip balm. At virtually every critical point in its analysis of infringement issues, the Second Circuit's opinion is at odds with the decision below. If anything, the *W.W.W. Pharmaceutical* case presents a firmer base for finding bad faith than does this case: Gillette knew of the plaintiff's registration, knew the mark was being used on a personal health case product sold at retail, and used the mark as part of the name of its product. All of those factors are absent in this case.

While the contrast between the Seventh and Second Circuits is the most recent and stark, it is not the only example of disagreement among courts of appeals on the issue of intent. Substantial differences also exist with respect to determining when a defendant's bad faith warrants an award of profits in favor of the trademark holder. The Second, Fifth, Sixth, Ninth, District of Columbia, and Federal Circuits have held that such bad faith exists where "the infringement is 'willfully calculated to exploit the advantage of an established mark.'" *Lindy Pen Co. v. Bic Pen Corp.*, No. 90-55248, 1993 WL 4864 at *3 (9th Cir. Jan. 14, 1993), quoting *Playboy Enterprises, Inc. v. Baccarat Clothing Co.*, 692 F.2d 1272, 1274 (9th Cir. 1982). *See also Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l.*, 951 F.2d 684, 695-696 (5th Cir. 1992) (reversing award of profits where there was no indication that defendant "attempted to 'palm off'" its products as those of plaintiff); *Nalpac, Ltd. v. Corning Glass Works*, 784 F.2d 752, 755 (6th Cir. 1986) (affirming denial of accounting where there was no showing of fraud or palming off); *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 917-919 (Fed. Cir. 1984) (affirming denial of accounting where there was no showing of palming off); *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968 (D.C. Cir. 1990) (reversing award of profits in Section 35(a) case where defendant's advertising merely "lacked solid empirical support"); *Carl Zeiss Stiftung v. Veb Carl Zeiss Jena*, 433 F.2d 686, 707 (2d Cir. 1970), *cert. denied*, 403 U.S. 905 (1971) (reversing award of profits where there was no palming off or fraud); Restatement (Third) of Unfair Competition § 37, comment e (Tentative Draft Nov. 3, 1991) ("The better view limits an accounting of profits to acts intended to create confusion or to deceive prospective purchasers") (cited in 2 McCarthy, *Trademarks and Unfair Competition* § 30.25[3] (1992)). This clearly-

understood standard protects commercial actors from the subjective and amorphous standard adopted below.

In expressly acknowledging and rejecting this view, the Seventh Circuit held as a matter of law that bad faith may exist even where there is no intent to deceive and no misappropriation of the plaintiff's good will associated with the mark. App., *infra*, 31a-32a, quoting *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989), *cert. denied*, 110 S. Ct. 1124 (1990) ("[o]ther than general equitable considerations, there is no express requirement that . . . the infringer wilfully infringe the [trademark] to justify an award of profits"). The court instead applied a negligence standard, affirming the district court's holding that bad faith exists where the defendant acts with "indifference" to the trademark holder's rights (App., *infra*, 98a) and stating that the "trial court's primary function is to make violations of the Lanham Act unprofitable to the infringing party," regardless of whether the infringer intended to appropriate the trademark holder's good will. *Id.* at 31a.

In rejecting the holdings of other courts of appeals, the Seventh Circuit espoused a standard that upsets the balance of interests struck by the Lanham Act. The court of appeals affirmed a finding of bad faith even though it was **undisputed** that Quaker did not intend to trade on the plaintiff's good will, that Quaker did not attempt to cause confusion by using the phrase "THIRST AID," that Quaker's advertising campaign caused no actual confusion, and that plaintiff suffered no compensable injury. The Seventh Circuit ignored these facts, stating that an intent to appropriate the plaintiff's good will "is necessarily absent in a reverse confusion case." *Id.* at 31a. That rationale is incompatible with the Second Circuit's decision in *W.W.W.*

Pharmaceutical, also a reverse confusion case. Moreover, the Seventh Circuit's explanation of its holding underscores why no other court of appeals has permitted an award of profits in a reverse confusion case and highlights why this Court's review is warranted. In this case, the Seventh Circuit joined the increasing number of courts of appeals that have held "reverse confusion" to be actionable.[8] The acceptance of this theory of liability adds immediacy to the need for this Court to assure that the fundamental purposes of the Lanham Act are not undermined by the standards crafted for assessing liability and imposing sanctions in reverse confusion cases.

III. THIS CASE RAISES IMPORTANT QUESTIONS OF LAW REGARDING THE SCOPE AND RATIONALE OF MONEY AWARDS AND TRADEMARK RIGHTS UNDER THE LANHAM ACT, ON WHICH DECISIONS OF THE COURTS OF APPEALS ARE DIVIDED

The Seventh Circuit expressly recognized in the decision below that the courts of appeals are divided on the propriety of an award of profits under the Lanham Act solely for purposes of deterrence in the absence of fraud, palming off, or unjust enrichment by willful use of another's mark. That split of authority revolves around critical policy underpinnings of the Lanham Act.

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[8] *See Banff, Ltd. v. Federated Dep't Stores*, 841 F.2d 486, 490-91 (2d Cir. 1988); *Big O Tire Dealers v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365 (10th Cir. 1977), *cert. dismissed*, 434 U.S. 1052 (1978); *Capital Films Corp. v. Charles Fries Prods.*, 628 F.2d 387, 393-94 (5th Cir. 1980); *Ameritech, Inc. v. American Information Technologies Corp.*, 811 F.2d 960, 964 (6th Cir. 1987); *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837 (9th Cir. 1987).

Federal trademark policy reflects Congress' determination that an accounting of defendant's profits will not be ordered "merely because there has been an infringement." *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 131 (1947).[9] Rather, in the absence of fraud or palming off, this Court has held it appropriate to deny an accounting, even against a defendant that has been found liable for trademark infringement and unfair competition, "where an injunction will satisfy the equities of the case." *Id.* at 128, 130-32. That view is consistent with the statutory preference for monetary awards that are compensatory and not punitive as reflected in the "compensation and not a penalty" requirement of Section 35(a) of the Lanham Act. *See* Koelemay, *Monetary Relief Under For Trademark Infringement Under the Lanham Act*, 72 Trademark Rptr. 458, 481-87, 523 (1982). Recognizing this fundamental compensatory principle, this Court has ruled that in order to award profits in a trademark case, there must first be a basis for finding damage. *Mishawaka Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 206 (1942). *See Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940).

As the Seventh Circuit observed, courts of appeals are divided in applying the statutory standard. In applying

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[9] Although *Champion* was decided under the Trade-Mark Act of 1905, 33 Stat. 728 (1905), it has been applied as guidance for the award of profits under Section 1117(a) of the Lanham Act. *See, e.g., Caesars World, Inc. v. Venus Lounge, Inc.*, 520 F.2d 269, 274 n.2 (3d Cir. 1975); *Electronics Corp. of America v. Honeywell, Inc.*, 358 F. Supp. 1230, 1234 (D. Mass.), *aff'd*, 487 F.2d 513 (1st Cir. 1973), *cert. denied*, 415 U.S. 960 (1974); Koelemay, *Monetary Relief for Trademark Infringement Under the Lanham Act*, 72 Trademark Rptr. 458, 496 & nn. 224-25 (1982) (*Champion* "has been the leading decision regarding the right to recovery under Section 35").

Section 35(a) to an award of profits, the courts of appeals have split along two principal lines. On the one hand, the First, Second, Third, Fifth, Sixth, Ninth and District of Columbia Circuits reject an accounting of profits absent a showing of fraud, palming off, or actual harm. *See, e.g., Raxton Corp. v. Anania Assocs., Inc.*, 668 F.2d 622, 625 (1st Cir. 1982) (denying accounting because plaintiff and defendant do not compete and no actual damages); *Quabaug Rubber Co. v. Fabiano Shoe Co.*, 567 F.2d 154, 161-62 (1st Cir. 1977) (denying accounting because no showing of diverted sales or financial loss); *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1540 (2d Cir.), *cert. denied*, 113 S. Ct. 510 (1992) ("plaintiff must prove that an infringer acted with willful deception before the infringer's profits are recoverable"); *Caesars World, Inc. v. Venus Lounge, Inc.*, 520 F.2d 269, 274-75 (3d Cir. 1975) (denying accounting absent proof of actual damage or actual profits due to infringement); *Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l*, 951 F.2d 684, 697-98 (5th Cir. 1992) (no accounting in absence of palming off); *Frisch's Restaurants, Inc. v. Elby's Big Boy*, 849 F.2d 1012, 1015-16 (6th Cir. 1988) (denying accounting absent showing of trading on goodwill or profits due to infringement); *Nalpac, Ltd. v. Corning Glass Works*, 784 F.2d 752, 755 (6th Cir. 1986) (same); *Lindy Pen Co. v. Bic Pen Corp.*, No. 90-55248, 1993 WL 4864, at *3 (9th Cir. Jan. 14, 1993) (profits proper where infringment is "willfully calculated to exploit the advantage of an established mark"); *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968-69 (D.C. Cir. 1990) (reversing accounting of profits awarded for sheer deterrent effect); *Foxtrap, Inc. v. Foxtrap, Inc.*, 671 F.2d 636, 641 (D.C. Cir. 1982) (denying accounting absent showing of fraud or palming off).

On the other hand, the Fourth, Seventh, Tenth and Eleventh Circuits espouse a deterrent/unjust enrichment analysis and permit an accounting of profits without a showing of fraud, palming off, or actual harm. *See, e.g., Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104 (4th Cir. 1991) (awarding profits absent actual damages to plaintiff citing "property" view of trademark right); *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990) (awarding profits in absence of actual damages "to make violations of the Lanham Act unprofitable" under deterrence rationale); *Otis Clapp & Sons, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 744 (7th Cir. 1985) (awarding $6 million based on value of defendant's advertising campaign, even though defendant made no profit due to infringement); *Blue Bell Co. v. Frontier Refining Co.*, 213 F.2d 354 (10th Cir. 1954) (awarding profits absent damages to plaintiff under "property" view of trademark right); *Burger King v. Mason*, 855 F.2d 779, 781 (11th Cir. 1988) (awarding profits absent showing of actual damage or unjust enrichment and to deter future infringement; holding "good faith" no defense); *Wesco Mfg. v. Tropical Attractions of Palm Beach, Inc.*, 833 F.2d 1484, 1487 (11th Cir. 1987) (awarding profits absent showing of actual damages).

In recognizing the existence of this wide divergence, the decision below brings the circuit conflict into sharp focus. Other recent appellate decisions have further crystallized the issue by expressly rejecting the "deterrence" line of cases, of which the decision below is the latest example. In *ALPO Petfoods, Inc. v. Ralston Purina Co.*, the District of Columbia Circuit reversed an accounting based on the deterrent and "public interest" rationales, holding that "deterrence is too weak and too easily invoked a justification for the severe and often

cumbersome remedy of a profits award." 913 F.2d at 969. Instead, the court in *ALPO* sought to restore Section 35(a) to its intended role, *viz.*, to provide a remedy for "passing off a product or service as another seller's better established one, or some other deliberate theft of a mark holder's good will -- in sum, conduct aimed at a victim targeted by the defendant." *Id.* at 966. Similarly, in *Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l*, 951 F.2d at 697-98, the Fifth Circuit recently affirmed the denial of an accounting in the absence of palming off, intent to deceive or confuse, damage or harm to plaintiff's business or good will due to the infringement, or profits earned by defendant due to the infringement. *See also George Basch Co. v. Blue Coral, Inc.*, 968 F.2d at 1539 (limiting the role of deterrence, which "is not compensatory in nature, but rather seeks to protect the public at large").

The decision below not only recognized the intercircuit conflict, but also acknowledged as "perhaps more logical" Quaker's argument based on decisions of other courts of appeals that deterrence alone cannot support an accounting of profits. App., *infra*, 32a. The rudderless uncertainty created by this division in the circuits obscures the correct role of an equitable award of profits under the Lanham Act, and creates substantial opportunity and motive for forum shopping when bringing a trademark infringement action.[10] Had STW sued in its

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[10] *See* 2 McCarthy, *Trademarks and Unfair Competition* § 30.25[1]. Moreover, in contrast to the decision below, several courts of appeals have held that "good faith" is irrelevant to plaintiff's entitlement to an accounting. *See Burger King Corp. v. Mason*, 855 F.2d 779 (11th Cir. 1988), citing *Wolfe v. National Lead Co.*, 272 F.2d 867 (9th Cir. 1959), *cert. denied*, 362 U.S. 950 (1960), *overruled in part on other grounds* in *Maier Brewing Co. v. Fleischmann Distilling Corp.*, 359 F.2d 156, 165 (9th Cir. 1966), *aff'd*, 386 U.S. 714 (1967).

home forum in the First Circuit, it would not be entitled to recovery because that court requires a plaintiff to show actual harm in the form of diverted sales or injury to good will. *See Raxton Corp. v. Anania Assocs., Inc.*, 668 F.2d 622, 625 (1st Cir. 1982); *Quabaug Rubber Co. v. Fabiano Shoe Co.*, 567 F.2d 154, 161-62 (1st Cir. 1977); *Electronics Corp. of America v. Honeywell, Inc.*, 358 F. Supp. at 1233-34.

Just as the existence of a conflict is clear, the practical importance of the questions presented in this case is also clear. The decision below penalizes the everyday marketing activities of corporations, like Quaker, that trademarked products to the public across the land.[11] The prevailing split of authority on the penalties to which such decisions are subject deprives decisionmakers and the lower courts of uniform nationwide standards and calls to mind this court's admonition in *United States v. United States Gypsum Co.*, 438 U.S. 422 (1978). Where prohibited behavior is "difficult to distinguish from the gray zone of socially acceptable and economically justifiable business conduct," courts should refrain from imposing rules which may result in "overdeterrence" (*id.* at 441), because

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[11] Although the court of appeals remanded for further proceedings on the award of profits, it was simply for recalculating the award in accordance with the directives set forth in the panel opinion. It is appropriate to exercise certiorari jurisdiction to review these important questions of law that would justify review of a final judgment. *See United States v. GM*, 323 U.S. 373, 374 (1945); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 408-09 (1916); *Forsyth v. Hammond*, 166 U.S. 506 (1897). Review at the present stage is particularly warranted because, if Quaker's position is sustained, the decision below would be rendered wholly void. *E.g. American Construction Co. v. Jacksonville, T. & K.W. Ry.*, 148 U.S. 372 (1893).

> [s]alutary and procompetitive conduct lying close to the borderline of impermissible conduct might be shunned by businessmen who chose to be excessively cautious in the face of uncertainty regarding possible exposure. . . for even a good-faith error of judgment.

For these reasons, the decision below fully warrants this Court's review.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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February 1993

APPENDICES

APPENDIX A

No. 84 C 8075

IN THE

UNITED STATES COURT OF APPEALS

FOR THE SEVENTH CIRCUIT

No. 91-2876

SANDS, TAYLOR & WOOD COMPANY,

Plaintiff-Appellee,

v.

THE QUAKER OATS COMPANY,

Defendant-Appellant.

Appeal from the United States District Court
for the Northern District of Illinois, Eastern Division.
No. 84 C 8075-Prentice H. Marshall, Judge.

ARGUED FEBRUARY 11, 1992-
DECIDED SEPTEMBER 2, 1992

Before Cudahy and Ripple, *Circuit Judges*, and Fairchild, *Senior Circuit Judge*.

Cudahy, *Circuit Judge*. Sands, Taylor & Wood Company (STW) brought this action against The Quaker Oats Company (Quaker) for federal trademark infringement and related state-law claims, alleging that Quaker's use of the words "Thirst Aid" in its advertising slogan "Gatorade is Thirst Aid" infringed STW's registered trademark for THIRST-AID. The district court agreed, and entered judgment for STW in the amount of $42,629,399.09, including prejudgment interest and attorney's fees. The court also permanently enjoined Quaker from using the words "Thirst Aid." Not surprisingly, Quaker appeals.

I.

Plaintiff STW is a small, Vermont-based company that for the past 180 years has sold bagged flour at retail under the brand name "King Arthur Flour." In 1973, STW acquired Joseph Middleby, Jr., Inc. (Middleby), a manufacturer of soft drinks, soda fountain syrups and ice cream toppings. STW thereby became the owner of three trademarks registered to Middleby: (1) THIRST-AID "First Aid for Your Thirst," issued October 10, 1950, for use on "nonalcoholic maltless beverages, sold as soft drinks, and syrups therefor"; (2) THIRST-AID, issued August 26, 1952, for use on various ice cream toppings as well as "fruits and sauces used in the making of ice cream"; and (3) THIRST-AID, issued March 24, 1953, for use on "soda fountain syrups used in the preparation of maltless soft drinks."

From 1921 to 1973, Middleby used the THIRST-AID mark on a wide variety of beverage products and syrups that it sold to soda fountains, ice cream parlors and food service outlets. Middleby also supplied its THIRST-AID customers with various items displaying the name THIRST-AID, including streamers, banners, glasses and pitchers, for in-store advertising and promotion. STW continued these activities after it acquired Middleby, which it operated as a wholly-owned subsidiary.

In the late 1970s sales of THIRST-AID soft drinks declined as consumers turned increasingly to bottles and cans rather that soda fountains and ice cream parlors for their soft drinks. In addition, between 1979 and 1983 STW underwent a period of severe economic hardship during which its annual gross revenues dropped from $40 million to approximately $3.1 million. In the spring of 1980, Pet, Inc. (Pet), negotiated with STW a nationwide license to use the name THIRST-AID on a new isotonic beverage[1] intended to compete with the very popular Gatorade brand isotonic beverage manufactured by Stokely Van Camp Company (Stokely). Pet began test-marketing the product in twenty stores in Columbia, South Carolina in June of 1980. Pet's THIRST-AID was advertised through the same media as Gatorade, and was sold through the same channels of trade (grocery stores) to the same customers. During the five-month period of the test, Pet's THIRST-AID captured approximately 25% of the isotonic beverage market in the test area. Nevertheless, for reasons that are not important here, Pet

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[1] An isotonic beverage is one which is specifically formulated to replenish fluids and minerals lost by the human body, particularly through strenuous exercise.

decided not to enter the market with the new product and in June of 1981 its license to use the name THIRST-AID expired.

In December of 1981, STW sold the assets of Middleby (now renamed Johnson-Middleby) to L. Karp & Sons (Karp), a distributor of bakery products. As part of the sale, STW assigned to Karp all of the registered THIRST-AID trademarks. STW obtained a simultaneous exclusive license back for retail use of the trademark on certain "Products" defined as "jams, jellies, pie fillings" and various other bakery supplies.

In August of 1983, Stokely, the manufacturer of Gatorade, was acquired by Quaker. Shortly thereafter, Quaker solicited proposals for a new advertising campaign intended to educate customers about Gatorade's ability to quench thirst and replace fluids and minerals lost by the human body through strenuous exercise. One of the candidates was the slogan "Gatorade is Thirst Aid for That Deep Down Body Thirst."

Pursuant to Quaker's regular practice, the proposed "Thirst Aid" campaign was submitted to the legal department for approval in February or March of 1984. Quaker's in-house counsel, Charles Lannin, concluded that the words "Thirst Aid" did not raise any trademark problems because they were used to describe an attribute of the product rather than as a designation of source or affiliation. Lannin therefore did not conduct a trademark search for the term "Thirst Aid" at this time.

Shortly thereafter, an employee of Quaker's research and development division telephoned Lannin and informed him that Pet had previously test-marketed an

isotonic beverage called THIRST-AID. Lannin contacted Pet and was told that Pet had discontinued its isotonic beverage a few years before. Some weeks later, another Quaker employee informed Lannin that he thought a "Thirst Aid" beverage was being marketed in Florida. At this point, on May 2, 1984, Lannin obtained a trademark search of the phrase "Thirst Aid." The search revealed the three THIRST-AID registrations by Middleby as well as the sale of the marks to Karp. Lannin directed a trademark paralegal employed by Quaker to contact Karp in order to determine what products it was selling under the THIRST-AID name; the Karp employee to whom the paralegal spoke[2] stated that "they [sic] didn't think they marketed anything under that name." Tr. at 942.

On May 12, 1984, the first "Gatorade is Thirst Aid" commercials ran on television. On May 31, 1984, Karp's lawyer, Russell Hattis, called Quaker regarding Quaker's use of "Thirst Aid." Hattis claimed that Quaker was infringing Karp's trademarks, to which Lannin responded that there was no infringement because Quaker was using the words "Thirst Aid" descriptively. In a subsequent meeting between the two, Lannin learned from Hattis that the THIRST-AID mark had not been used on soft drinks or beverages since the Pet test-market. On June 2, Quaker sought an opinion from outside trademark counsel, Robert Newbury, who essentially agreed with Lannin that there was no infringement because Quaker

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[2] Although the district court stated that Quaker's paralegal spoke only to Karp's receptionist, the paralegal's deposition makes clear that she spoke to two pepole, only one of whom was the receptionist. The position of the other person is unclear, although the paralegal did testify that she had asked for someone "in sales." Tr. at 941.

was using the words "Thirst Aid" descriptively rather than as a trademark.

On June 4, Lannin was contacted by Frank Sands, the president of STW, who stated that STW owned the rights to use the THIRST-AID mark at retail under a license-back agreement with Karp. Sands claimed that Quaker was infringing those rights, although he acknowledged that STW did not sell any THIRST-AID products at that time.

Quaker did not hear from either Karp or STW again until the commencement of this litigation. In the interim, STW entered into a written agreement with Karp under which STW paid Karp $1 for an assignment of Karp's trademark registrations. Sands filed suit one week later, alleging that the slogan "Gatorade is Thirst Aid for That Deep Down Body Thirst" infringed its registrations and constituted unfair competition under the Lanham Act, 15 U.S.C. §§ 1051 *et seq.*, state common law and various state statutes. After granting summary judgment in favor of STW on Quaker's fair use defense, the district court held a bench trial on the remaining issues. On December 18, 1990, the court issued its opinion holding that Quaker had infringed STW's trademark and awarding STW 10% of Quaker's pre-tax profits on Gatorade for the period during which Quaker used "Thirst Aid" in its advertising. *Sands, Taylor & Wood v. The Quaker Oats Co.*, 18 U.S.P.Q.2d 1457 (N.D. Ill. 1990). The court also awarded STW attorney's fees and costs as well as prejudgment interest. Gatorade appeals.

II.

As we have noted, the district court granted summary judgment in favor of STW on Quaker's defense that it had made a "fair use" of the phrase "Thirst Aid."[3] The fair use doctrine is based on the principle that no one should be able to appropriate descriptive language through trademark registration. *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 528 (1924). To prevail on the fair use defense, the defendant must establish that its use of a registered "term or device" is "otherwise than as a trade or service mark," that the term or device is "descriptive of" the defendant's goods or services and that the defendant is using the term or device "fairly and in good faith only to describe to users" those goods and services. 15 U.S.C. § 1115(b)(4). The district court found that the term "Thirst Aid" was not descriptive of Gatorade but rather was "suggestive." The court also found that even if "Thirst Aid" were descriptive, Quaker could not prevail on the fair use defense because it had used the term as a trademark in its ads. Quaker challenges both of these conclusions.[4]

We review a district court's grant of summary judgment de novo, "viewing the record and all reasonable inferences drawn from it in the light most favorable to the party opposing the motion." *Anderson v. Stauffer Chemical*

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[3] Because THIRST-AID is a federally registered mark which STW has used continuously for over five years, the validity of the mark itself is incontestable under 15 U.S.C. § 1065. Incontestable marks are subject to only seven defenses, one of which is fair use. *Id.*

[4] The court did not reach the issue of Quaker's good faith at the summary judgment stage.

Co., No. 91-1173, slip op. at 5 (7th Cir. June 8, 1992). We will affirm the grant of summary judgment only if we conclude from the pleadings and other materials that were before the district court "that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c).

A. *Descriptiveness of "Thirst Aid"*

The district court's classification of a term as "descriptive" or "suggestive" is a factual determination subject to review for clear error. *Forum Corp. v. Forum, Ltd.*, 903 F.2d 434, 438 (7th Cir. 1990); *G. Heileman Brewing Co. v. Anheuser-Busch, Inc.*, 873 F.2d 985, 992 (7th Cir. 1989); *see also* 1 J. Thomas McCarthy, *Trademarks and Unfair Competition* § 11:1, at 94 (1991 Supp.) (citing cases). In this case, however, the district court's determination that "Thirst Aid" is suggestive rather than descriptive was made in the context of a summary judgment motion. Courts are not empowered to make factual findings on motions for summary judgment. The district court's grant of summary judgment on this issue therefore amounts to a finding that, even resolving all factual disputes in favor of Quaker, the term "Thirst Aid" is not descriptive of Gatorade as a matter of law. We review this legal conclusion de novo.[5]

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[5] In its opinion following the bench trial, the district court reaffirmed its holding that "defendant's use of Thirst Aid was not descriptive of Gatorade and therefore did not constitute fair use." *Sands, Taylor & Wood*, 18 U.S.P.Q.2d at 1458 n.1. STW argues that the court's holding thereby became a factual finding subject to review under the clearly erroneous standard. Quaker responds that nothing in the district

(continued...)

The district court described the difference between a suggestive mark and a descriptive one as follows: "'[I]f the mark imparts information directly it is descriptive. If it stands for an idea which requires some operation of the imagination to connect it with the goods, it is suggestive.'" Mem. Op. at 5 (May 29, 1985) (quoting *Union Carbide Corp. v. Ever-Ready Inc.*, 531 F.2d 366, 379 (7th Cir. 1976)). Purporting to apply this test, the district court found that "Thirst Aid" was suggestive rather than descriptive because it "requires imagination to create the impression of an isotonic beverage." *Id.* at 9. Quaker argues that the district court erred in reaching this conclusion because it misapplied the relevant legal standard.

We agree. The district court thought that in order to be descriptive the term "Thirst Aid" had to bring to mind the product in question -- "create the impression of an isotonic beverage." Our cases, however, hold that "it is not necessary that a descriptive term depict the [product] itself, but only that the term refer to a *characteristic* of the [product]." *Forum Corp.*, 903 F.2d at 444 (emphasis in

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[5] (...continued)
court's opinion following trial indicates that the court made any findings of fact as to fair use. Further, Quaker argues that once the district court granted summary judgment on the issue of fair use it could not thereafter try that issue without notice to the parties. *Leddy v. Standard Drywall, Inc.*, 875 F.2d 383, 386 (2d Cir. 1989). We are inclined to agree. In addition, we note that even if STW were correct as a general matter, it would make no difference in this case because Quaker challenges the district court's ruling based on its use of the wrong legal test. *Forum Corp.*, 903 F.2d at 439 (court must "make sure that the district court's trademark classification was based on correct legal standards").

original); *see also Heileman*, 873 F.2d at 992 ("'A merely descriptive term specifically describes a *characteristic* or *ingredient* of the goods.'") (emphasis added) (quoting *Miller Brewing Co. v. G. Heileman Brewing Co.*, 561 F.2d 75, 79 (7th Cir. 1977)). Under that test, the district court's conclusion that "Thirst Aid" is not, as a matter of law, descriptive of Gatorade cannot stand. In support of its opposition to STW's motion for summary judgment, Quaker presented evidence that consumers understand the words "Thirst Aid" to convey the message that Gatorade helps quench thirst -- that is, that "Thirst Aid" describes a characteristic of Gatorade.[6] *See* Defendant's Motion for Summary Judgment on Fair Use, Ex. D, E & H, Aff. of Mark Shapiro and Excerpts from Dep. of Frank E. Sands. In *Heileman*, we observed that "the true test [of descriptiveness] is one of *consumer perception* -- how is [the term] perceived by the average prospective consumer?" 873 F.2d at 994 (emphasis added). Quaker's evidence certainly created a material issue of fact as to whether the average consumer perceives "Thirst Aid" as describing a characteristic of Gatorade -- its ability to quench thirst.

The fact that "Thirst Aid" is not a common phrase does not preclude a finding that it is descriptive rather than suggestive. That a term is an "unfamiliar" one which "requires a hearer to think about its meaning does not

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[6] Further, STW's experts testified at trial that Gatorade's use of the words "Thirst Aid" "tells the public that Gatorade is thirst quenching," that it "quenches thirst and aids a person who is thirsty." Tr. at 192-94 (Direct examination of William M. Weilbacher). Although that evidence was not before the district court on summary judgment, it does suggest that Quaker could have put on more evidence to the same effect had the fair use issue been tried.

show that it is suggestive." *Forum Corp.*, 903 F.2d at 443. Nor does the fact that "Thirst Aid" is a play on words which makes one think of "first aid" as well as "thirst quenching" render it suggestive as a matter of law. *See, e.g., 20th Century Wear, Inc. v. Sanmark-Stardust, Inc.*, 747 F.2d 81 (2d Cir. 1984) (trademark "Cozy Warm--Energy Savers" for women's pajamas found to be descriptive despite reference to energy crisis); *Pizzazz Pizza & Restaurant v. Taco Bell Corp.*, 642 F. Supp. 88 (N.D. Ohio 1986) (word "pizzazz" to describe pizza found to be descriptive); *Pullman v. Fulbright*, 695 S.W.2d 830 (Ark. 1985 (phrase "shear pleasure" as name for hair salon found to be descriptive). We have stated that "the imagination required to link a suggestive term with the corresponding product 'refers to the mental process required to connect a name that is incongruous or figurative with the product (*e.g.*, "Roach Motel" with an insect trap or "TIDE" with soap). . . .'" *Heileman Brewing*, 873 F.2d at 997 (quoting district court opinion, 676 F. Supp. 1436, 1491 n.46 (E.D. Wis. 1987)). The linkage of "thirst" and "aid" to form a play on both "first aid" and "lemonade" does not make the phrase "incongruous" or "figurative" in its method of description. "[N]o flight of imagination or keen logical insight is required," *id.* at 993, to make the connection between "Thirst Aid" and a product that quenches thirst. This fact distinguishes "Thirst Aid" from other plays on words that courts have found to be suggestive rather than descriptive. For example, in *Blisscraft of Hollywood v. United Plastics Co.*, 294 F.2d 694 (2d Cir. 1961), the court found that the term "Poly Pitcher" was not descriptive of polyethylene pitchers because to the average consumer the word "poly" did not connote a product made of polyethylene. Thus, the only association evoked by the term "Poly Pitcher" was with the historical figure of Molly Pitcher, making the term an

"incongruous expression" with "the characteristics of a coined or fanciful mark." 294 F.2d at 700. We conclude that the district court erred in finding "Thirst Aid" suggestive as a matter of law.

B. *Use of "Thirst Aid" as a Trademark*

The district court also found that, even if "Thirst Aid" were descriptive, Quaker could not prevail on its fair use defense because it used the term as a trademark. A word or phrase functions as a trademark when it is "used by a source of [a product] to identify itself to the public as the source of its [product] and to create in the public consciousness an awareness of the uniqueness of the source and of its [products]." *M.B.H. Enterprises, Inc. v. WOKY, Inc.*, 633 F.2d 50, 54 (7th Cir. 1980). The court observed that "'Gatorade' clearly identifies the product as being from a particular source." Mem. Op. at 9. The court concluded, however, that "[w]hen defendant uses 'Thirst Aid,' . . . it too identifies the product as being from a particular source." *Id.* at 9-10. The court noted that "Thirst Aid" is "the most prominent feature of some of defendant's advertising. Each of the ads includes the statement 'Gatorade is THIRST AID.'" *Id.* at 10. The court therefore found that "[t]he way in which the defendant uses the words Thirst Aid creates an impression that the slogan is uniquely associated with Gatorade." *Id.*

Quaker argues that its use of a descriptive mark in conjunction with its own clearly established trademark, "Gatorade," could not be a trademark use. In support of this argument, Quaker relies in part on this court's observation that descriptive terms are "unlikely" to function as trademarks. *M.B.H. Enterprises*, 633 F.2d at

54. We have never said, however, that a descriptive term can *never* function as a trademark. Such a rule would not only conflate two of the three elements of fair use, it would also be contrary to the well-established doctrine that a descriptive term is protectable as a trademark to the extent it has developed secondary meaning. *Heileman*, 873 F.2d at 998; *International Kennel Club, Inc. v. Mighty Star, Inc.*, 846 F.2d 1079, 1085 (7th Cir. 1988); *Miller Brewing Co. v. G. Heileman Brewing Co.*, 561 F.2d 75, 79 (7th Cir. 1977); *see also Venetianaire Corp. v. A & P Import Co.*, 429 F.2d 1079 (2d Cir. 1970) (defendant's use of word "Hygienic" on mattresses infringed plaintiff's rights in its mark "Hygient").

Nor is a defendant's use of a term in conjunction with its own trademark *per se* a use "other than as a trademark." *See, e.g., Lindy Pen Co. v. Bic Pen Corp.*, 725 F.2d 1240, 1248 (9th Cir. 1984) (defendant's use of descriptive word "Auditors" on its pen was a trademark use even though the word appeared in conjunction with defendant's brand name on pens, packaging and promotional materials); *Beer Nuts, Inc. v. Clover Club Foods Co.*, 711 F.2d 934, 938 (10th Cir. 1983) (no fair use where defendant used "Brew Nuts" as a "secondary trademark" along with its own brand name on packaging). Indeed, in the related context of determining likelihood of confusion,[7] some courts have observed that the

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[7] *See* 1 J. Thomas McCarthy, *Trademarks and Unfair Competition* § 11:17, at 477 (2d ed. 1984) (hereinafter "McCarthy") (noting "some confusion in the case law as to whether 'fair use' is really a distinct and separate 'defense' or whether it is merely one manner of use which is not likely to confuse customers," and arguing that "'fair use' should be viewed as merely one type of use which is not likely to cause confusion").

conjunction of defendant's trademark and the allegedly infringed term "may actually increase the misappropriation by linking defendant's name to plaintiff's goodwill." *Banff, Ltd. v. Federated Department Stores, Inc.*, 841 F.2d 486, 492 (2d Cir. 1988); *see also Americana Trading Inc. v. Russ Berrie & Co.*, 23 U.S.P.Q.2d 1031 (9th Cir. 1992); *cf. International Kennel Club*, 846 F.2d at 1088 (argument that defendant's use of its house mark in conjunction with plaintiff's mark decreases likelihood of confusion is a "smokescreen and a poor excuse for the defendants' blatant misappropriation of the plaintiff's name"). Clearly, then, the fact that the Gatorade trademark always appears in Quaker's "Thirst Aid" advertisements does not preclude a finding that those advertisements also use "Thirst Aid" as a trademark.

The evidence of Quaker's advertisements supports the district court's conclusion that Quaker used "Thirst Aid" as a trademark. Quaker's ads do not simply use the words "Thirst Aid" in a sentence describing Gatorade, but as an "attention-getting symbol." 1 McCarthy, *supra* § 11:17, at 476. In many of the ads, the words "Thirst Aid" appear more prominently and in larger type than does the word "Gatorade." *Id.* at 476 n.7 (collecting cases). Further, given the rhyming quality of "Gatorade" and "Thirst Aid," the association between the two terms created by Quaker's ads is likely to be very strong, so that "Thirst Aid" appears as part of a memorable slogan that is uniquely associated with Quaker's product. *See Louis Rich, Inc. v. Horace W. Longacre, Inc.*, 423 F. Supp. 1327 (E.D. Pa. 1976) (use meant to foster identification with defendant and its product is not a fair use). Quaker presented no evidence that its "Thirst Aid" ads do not have this effect on consumers. "[T]he plain language of Rule 56(c) mandates the entry of summary judgment . . . against a party who

fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial." *Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986). The district court did not err in concluding that Quaker used "Thirst Aid" as a trademark.

III.

Because trademark rights derive from the use of a mark in commerce and not from mere registration of the mark, the owner of a mark will lose his exclusive rights if he fails actually to use it. 15 U.S.C. § 1127. A mark is deemed to be thus "abandoned" when "its use has been discontinued with intent not to resume such use." *Id.* Two years of nonuse create a prima facie case of abandonment, which may be rebutted by "evidence explaining the nonuse or demonstrating the lack of an intent not to resume use." *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 938 (7th Cir. 1989). Quaker argues that the district court erred in finding that STW or its predecessors had not abandoned through nonuse the THIRST-AID mark for a beverage sold at retail. Alternatively, Quaker contends that Karp abandoned the THIRST-AID marks through its 1984 assignment of those marks to STW.

A. *Nonuse*

1. Middleby Abandoned the Mark

Quaker contends that STW has no registration rights covering the use of THIRST-AID on a beverage because the trademark THIRST-AID "First Aid for Your Thirst," the only mark registered for use on "beverages" as

opposed to "beverage syrups," has not been used since 1949. We reject this argument for two reasons. First, the fact that STW and its predecessors have not used the entire slogan THIRST-AID "First Aid for Your Thirst" since 1949 does not necessarily mean that the registration has been abandoned. "[M]inor changes in a mark which do not change the basic, overall commercial impression created on buyers will not constitute any abandonment." 1 McCarthy, *supra* § 17:10, at 787. So long as the owner continues use of the "key element" of the registered mark, courts generally will not find abandonment. *Id.* Further, "the dropping of a non-essential word from a mark" has been held not to constitute abandonment. *Id.*; *see, e.g.*, *Puritan Sportswear Corp. v. Shure*, 307 F. Supp. 377 (W.D. Pa. 1969) (change from PURITAN SPORTSWEAR, THE CHOICE OF ALL AMERICANS to PURITAN not abandonment). Certainly, the key element of what Quaker calls the "beverage slogan registration" is the term THIRST-AID. In fact, the trademark registration for the slogan explicitly states that no claim of ownership is made as to the words "First Aid for Your Thirst" apart from the mark as it appears in the registration. If this registration were the only one for THIRST-AID that STW owned, we would not consider the decision to drop the modifying phrase "First Aid for Your Thirst" to constitute abandonment of the mark. *Cf. Forum Corp.*, 903 F.2d at 441 (senior user's shortening of trademark from Forum Corporation of America to Forum Corp. did not relieve junior user of Forum Ltd. from its responsibility to avoid confusion "since the salient and memorable feature of [the senior user's] mark is 'Forum'").

Second, even if we were to find that Middleby had abandoned the mark THIRST-AID "First Aid for your Thirst," we would not conclude that STW therefore had no

registration rights covering the use of THIRST-AID on beverages. We do not see the wide gulf between a trademark for beverage *syrups* and a trademark for beverages, on which Quaker relies. Further, Quaker's contention that STW has failed to use THIRST-AID on beverages sold "at retail" flies in the face of the district court's findings. The district court did find that "neither plaintiff, nor any predecessor of plaintiff has ever used THIRST-AID in connection with a packaged soft drink or beverage sold *in a store* at retail." *Sands, Taylor & Wood*, 18 U.S.P.Q.2d at 1461 (emphasis added). The court also found, however, that Middleby and STW had sold "a wide line of beverage products and syrups . . . *at retail* to ice cream soda fountain shops." *Id.* at 1459 (emphasis added). Further, the beverages made from these syrups were advertised by the soda fountains to the ultimate consumer as THIRST-AID through the use of various types of in-store retail advertising including streamers to be put on windows as well as glasses, pitchers and dispensing barrels embossed with the mark THIRST-AID. Therefore, we conclude that Middleby's failure to use the mark THIRST-AID "First Aid for Your Thirst" after 1949 did not constitute abandonment of the mark THIRST-AID for use on beverages.

2. Intent Not to Resume Use

Alternatively, Quaker argues that even if Middleby had not abandoned the "beverage slogan registration," any right to use the THIRST-AID marks for a beverage was abandoned by Karp, which acquired the marks in

December 1981.[8] Quaker relies on the testimony of Karp's vice president and chief financial officer that Karp did not intend to use THIRST-AID for a beverage when it acquired the marks. This argument misses the point. While it is true that Karp did not use THIRST-AID for a beverage, it is also the case that, approximately 1 1/2 years after acquiring the marks, Karp hired a consultant for the specific purpose of attempting to license THIRST-AID for use on a beverage. "[T]he owner of the trademark need only produce evidence to rebut the presumption [of abandonment] while the ultimate burden of persuasion rests on the defendant." *Roulo*, 886 F.2d at 938. The district court found that STW's efforts to license THIRST-AID for use on a soft drink during this period were sufficient evidence of intent to resume use to rebut a prima facie case of abandonment. Although the district court erred in focusing on the intent of STW rather than of Karp during the three years that Karp owned the marks,[9] the court at least implicitly found that Karp's efforts to license THIRST-AID to Shasta and Tropicana were sufficient to establish Karp's intent to resume use.[10]

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[8] Quaker also argues that STW has no registration rights covering the use of THIRST-AID for a beverage because Karp never used and never intended to use THIRST-AID "First Aid for Your Thirst." For the reasons discussed above, we find this argument to be without merit.

[9] *See infra* at 17 (affirming district court's holding that the 1981 agreement between STW and Karp conferred "extremely broad rights of ownership" on Karp, while the license back to STW "limit[ed] use of the mark to" certain defined products which did not include beverages).

[10] *Sands, Taylor & Wood*, 18 U.S.P.Q.2d at 1464 n.5 (describing efforts of Karp's agent, Forbes, to license THIRST-AID for soft drinks at

(continued...)

Karp did not abandon the right to use THIRST-AID for a beverage.

B. *Abandonment Through Assignment in Gross*

As the district court noted, "[t]he transfer of a trademark apart from the good will of the business which it represents is an invalid 'naked' or 'in gross' assignment," which passes no rights to the assignee. *Sands, Taylor & Wood*, 18 U.S.P.Q.2d at 1464. Quaker contends that the court erred in concluding that the September 1984 assignment of the THIRST-AID trademarks from Karp to STW was not an invalid assignment in gross. Quaker recognizes that transfer of a mark need not be accompanied by the transfer of any physical or tangible assets in order to be valid. "All that is necessary is the transfer of the goodwill to which the mark pertains." *Visa, U.S.A., Inc. v. Birmingham Trust Nat'l Bank*, 696 F.2d 1371, 1377 (Fed. Cir. 1982); *see also Money Store v. Harriscorp Finance, Inc.*, 689 F.2d 666, 676 (7th Cir. 1982) ("[I]t is not necessary to the continuing validity of the mark that tangible assets of the assignor pass to the assignee.") . According to Quaker, however, any good will associated with the THIRST-AID mark existed only in the institutional market, and therefore could not support the transfer of the right to use THIRST-AID on a beverage at retail. We disagree with both Quaker's characterization of the facts and its conclusion.

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[10] (...continued)
retail, and concluding that those efforts "do not evidence *plaintiff's* intent to resume use of the mark at retail" because Forbes "was not acting on plaintiff's behalf") (emphasis added).

Quaker's argument that any good will associated with THIRST-AID could exist only in the institutional market simply ignores STW's evidence, accepted by the district court, that from 1921 until at least 1976 the THIRST-AID mark was used in *retail*, in-store advertising and promotional materials provided to soda fountains that sold beverages made from THIRST-AID syrups. As the district court found, this use of the mark, as well as its use on the Pet product, created good will associated with THIRST-AID at the retail level. This good will, built up over more than fifty years, could not dissipate during the three and one-half years between the Pet test-market and the assignment of the marks from Karp to STW. *Defiance Button Machine Co. v. C&C Metal Prods. Corp.*, 759 F.2d 1053, 1061 (2d Cir. 1985).

The 1981 agreement between STW and Karp, the validity of which Quaker does not challenge, assigned to Karp "all of [STW's] right, title, ownership and interest in and to the Trademarks *and all goodwill appurtenant thereto*." (Emphasis added.) The agreement then licensed back to STW "the exclusive right and license" to use the marks in connection with certain defined "Products" in the retail trade only. None of the defined products were beverages or beverage-related. Thus, as the district court correctly found, the 1981 agreement conferred on Karp "extremely broad rights of ownership," *Sands, Taylor & Wood*, 18 U.S.P.Q.2d at 1467-68, including the exclusive right to use THIRST-AID on beverages and the good will associated with that use. *Id.* at 1466.

Under the 1984 agreement between STW and Karp, Karp assigned to STW "all right, title and interest in and to the trademark and the said registrations including the continued exclusive right to use the trademark THIRST-

AID in the retail trade field only, together with any goodwill of the business symbolized by the trademark. . . ." Karp retained the "exclusive right and license in perpetuity to use the trademark THIRST-AID in connection with the manufacture, marketing, sale and other commercialization of the Products in institutional trade only and not in retail trade." Thus, the 1984 agreement transferred back to STW the exclusive right to use THIRST-AID on a beverage, together with the good will associated with that use.[11] As we have already noted, that good will existed at the retail as well as at the institutional level, and it was not dissipated during the three and one-half years between the Pet test-market and the 1984 assignment. The district court did not err in finding that the assignment from Karp to STW was valid.

IV.

A. *Reverse Confusion*

The "keystone" of trademark infringement is "likelihood of confusion" as to source, affiliation, connection or sponsorship of goods or services among the relevant class of customers and potential customers. 2 McCarthy, *supra* § 23:1, at 42-43, 46-47. Usually, the confusion alleged is "forward confusion," which occurs "when customers mistakenly think that the junior user's

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[11] Although the efforts of Forbes to license THIRST-AID for use on an isotonic beverage on behalf of Karp continued for a short period after the September 11, 1984 assignment of the THIRST-AID marks back to STW, at that point those efforts were contrary to the agreement since Karp no longer had the right to license THIRST-AID for that use.

goods or services are from the same source as or are connected with the senior user's goods or services." *Id.* at 48. In such a case, the junior user attempts to capitalize on the senior user's good will and established reputation by suggesting that his product comes from the same source as does the senior user's product. *Big O Tire Dealers v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365 (10th Cir. 1977); 2 McCarthy, *supra* § 23:1, at 48.

In this case, however, STW relies not on class forward confusion but on the doctrine of "reverse confusion." Reverse confusion occurs when a large junior user saturates the market with a trademark similar or identical to that of a smaller, senior user. In such a case, the junior user does not seek to profit from the good will associated with the senior user's mark. Nonetheless, the senior user is injured because

> [t]he public comes to assume that the senior user's products are really the junior user's or that the former has become somehow connected to the latter. The result is that the senior user loses the value of the trademark -- its product identity, corporate identity, control over its goodwill and reputation, and ability to move into new markets.

Ameritech, Inc. v. American Information Technologies Corp., 811 F.2d 960, 964 (6th Cir. 1987); *see also Banff, Ltd.*, 841 F.2d at 490-91; *Big O Tire Dealers*, 561 F.2d at 1372. Although this court has not previously recognized reverse confusion as the basis for a claim under the Lanham Act, several other circuits have endorsed the

concept.[12] We agree with those courts that "the objectives of the Lanham Act -- to protect an owner's interest in its trademark by keeping the public free from confusion as to the source of goods and ensuring fair competition -- are as important in a case of reverse confusion as in typical trademark infringement." *Banff, Ltd.*, 841 F.2d at 490. We therefore hold that reverse confusion is a redressable injury under the Lanham Act.

Quaker does not really dispute the validity of the reverse confusion theory. Rather, Quaker argues that there is no likelihood of confusion of *any* sort here because STW has no "product in commerce" about which customers could be confused. We now turn to that issue.

B. *Likelihood of Confusion*

Modern trademark law prohibits use of a senior user's mark not only on products that are in direct competition with those of the senior user but also on products that are considered to be "closely related" to the senior user's. *International Kennel Club*, 846 F.2d at 1089. A "closely related" product is one "which would reasonably be thought by the buying public to come from the same source, or thought to be affiliated with, connected with, or sponsored by, the trademark owner." 2 McCarthy, *supra* § 24:3, at 166; *see also International Kennel Club*, 846 F.2d at 1089. Thus, the use of the mark VERA on cosmetics

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[12] *See, e.g., Banff, Ltd. v. Federated Dep't Stores, Inc.*, 841 F.2d 486 (2d Cir. 1988); *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837 (9th Cir. 1987); *Ameritech, Inc. v. American Information Technologies Corp.*, 811 F2.d 960 (6th Cir. 1987); *Capital Films Corp. v. Charles Fries Productions, Inc.*, 628 F.2d 387 (5th Cir. 1980); *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365 (10th Cir. 1977).

and perfume has been found to infringe the mark VERA on designer apparel and household linens. *Scarves by Vera, Inc. v. Todo Imports, Ltd.*, 544 F.2d 1167 (2d Cir. 1976); *see also International Kennel Club*, 846 F.2d at 1089 (use of INTERNATIONAL KENNEL CLUB mark on toy dogs likely to cause confusion as to source with International Kennel Club of Chicago, a sponsor of purebred dog shows); *James Burrough Ltd. v. Sign of Beefeater, Inc.*, 540 F.2d 266 (7th Cir. 1976) (SIGN OF THE BEEFEATER restaurants creates likelihood of confusion with BEEFEATER gin); *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 314 F.2d 149 (9th Cir. 1963) (use of BLACK & WHITE on beer creates a likelihood of confusion with BLACK & WHITE scotch whiskey).

One of the reasons courts have given for protecting trademark owners against the use of confusingly similar marks on closely related products is to protect the owner's ability to enter product markets in which it does not now trade but into which it might reasonably be expected to expand in the future. *Interpace Corporation v. Lapp, Inc.*, 721 F.2d 460, 464 (3d Cir. 1983); 2 McCarthy, *supra* § 24:5, at 177. Protecting the trademark owner's interest in capitalizing on the good will associated with its mark by moving into new markets is especially compelling in the context of a reverse confusion case, where the junior user so overwhelms the *senior* user's mark that the senior user may come to be seen as the infringer. Such a scenario is particularly likely if the senior user were to attempt to expand into the precise field where the junior user has created a strong association between *its* product and the senior user's mark. "When it appears extremely likely . . . that the trademark owner will soon enter the defendant's field, this . . . factor weighs heavily in favor of injunctive relief." *Interpace*, 721 F.2d at 464.

In this case, STW has manifested a serious intent to market (or license someone else to market) an isotonic beverage in direct competition with Gatorade under the THIRST-AID name. Karp continued those efforts during the period that it owned the THIRST-AID marks. Those efforts might well have been successful but for Quaker's "Thirst Aid" campaign.[13] The Pet test product is a fair representation of what an isotonic beverage marketed by STW or its licensee would look like. As Quaker notes, the district court's finding of likelihood of confusion was based largely on the Pet test product. The district court did not err in taking this approach, despite the fact that the Pet product is not currently on the market. *Cf. Roulo*, 886 F.2d at 937-38 (finding likelihood of confusion between defendant's product and plaintiff's product, although the latter had not been on market for more than two years).

Nor do we find any merit in Quaker's challenge to the district court's determination that there would likely be confusion between Gatorade and an isotonic beverage

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[13] In a June 4, 1981 letter to STW, the Director of Branded Products Marketing at Pet wrote: "it is possible, in fact likely, other grocery or dairy manufacturers may be interested in putting together the name, formula, and marketing plan elements used in our test market to effect an entry into the isotonic beverage category." And in an October 1984 letter confirming Tropicana's decision not to enter the isotonic beverage market at that time, the Chief Operating Officer of Tropicana wrote: "'Thirst Aid' as a brand name is right on strategy. However, protection of this trademark may be difficult, as I have recently seen Gatorade TV spots using Thrist [sic] Aid superimposed on the screen with the tag, 'Gatorade is Thirst Aid.' If we were to pursue this at a later date, we would require trademark protection, as 'Thirst Aid' is a key element offered in the proposal."

marketed by STW under the name THIRST-AID. This court has identified seven factors to be used in analyzing likelihood of confusion:

> The degree of similarity between the marks in appearance and suggestion; the similarity of the products for which the name is used; the areas and manner of concurrent use; the degree of care likely to be exercised by consumers; the strength of the complainant's mark; actual confusion; and an intent on the part of the alleged infringer to palm off his products as those of another.

Forum Corp., 903 F.2d at 439 (quoting *McGraw-Edison v. Walt Disney Prods.*, 787 F.2d 1163, 1167-68 (7th Cir. 1986). Quaker argues that the district court misapplied (or failed to apply) all but one of these factors. The trial court's ultimate conclusion as to likelihood of confusion is a finding of fact, which we review under the clearly erroneous standard. *Id.* at 438. We do, however, "review the district court's statement of the law de novo for legal error and its conclusions for signs that the court's application of the law was infected with legal error." *Id.*

Quaker argues, first, that the district court erred in finding a likelihood of confusion because it failed even to consider the strength of STW's mark. According to Quaker, the "extensive" use of the words "thirst aid" on other products "establishes the weakness of plaintiff's marks and weighs heavily against a finding of likelihood of confusion." Br. at 22-23. Although Quaker is correct that the district court failed to factor in the strength of STW's mark, we disagree with Quaker as to the significance of that factor in this case. "Whether a mark is weak or not is of little importance where the conflicting mark is

identical and the goods are closely related." 1 McCarthy, *supra* § 11:24, at 505-506. Here, both the marks and the goods -- Quaker's Gatorade and the isotonic beverage that STW would market but for Quaker's actions -- are virtually identical.

Further, "[t]he term 'strength' as applied to trademarks refers to the distinctiveness of the mark, or more precisely, its tendency to identify the goods sold under the mark as emanating from a particular ... source." *McGregor-Doniger, Inc. v. Drizzle, Inc.*, 599 F.2d 1126, 1131 (2d Cir. 1979). In a reverse confusion case, then, it may make more sense to consider the strength of the mark in terms of its association with the junior user's goods. Here, there was abundant evidence that consumers strongly associate the words "thirst aid" with Gatorade,[14] even when those words appear on a product label along with a *different* brand name.[15] Thus, to the extent that the district court erred in failing to consider the strength of the THIRST-AID mark, that error did not tend to favor STW.

Quaker also argues that the district court erred in finding that the marks are similar because the court (1) "incorrectly relied on the Pet product and on plaintiff's registrations" and (2) failed to consider that Quaker's "Thirst Aid" ads always included the well-known brand

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[14] STW's expert, William Weilbacher, presented evidence of a study he performed in which he asked consumers to fill in the correct company or brand name to complete a given advertising slogan. 79.2% of the 375 consumers he surveyed completed the slogan "_____ is thirst aid" with the word "Gatorade."

[15] *See* discussion of Weilbacher "pilot study," *infra* at 24.

name "Gatorade." The first of these arguments is clearly foreclosed by our conclusion, above, that the district court correctly relied on the Pet product in determining likelihood of confusion; both the Pet label and STW's registrations are appropriate evidence of how the THIRST-AID mark would appear on an isotonic beverage marketed by STW, particularly since STW, as the senior user, has no obligation to label its product in such a way as to avoid confusion with Quaker's product. *Forum Corp.*, 903 F.2d at 440. As for the second argument, it is precisely the strong association between Gatorade and "Thirst Aid" created by Quaker's ads that is likely to create confusion in this case. Under the circumstances, the linking of the plaintiffs' mark with the defendant's brand name is an aggravation, not a justification. *See International Kennel Club*, 846 F.2d at 1088.

Quaker also argues that the district court erred in finding similarity of products and distribution chains because it relied on the Pet product. Again, this claim is foreclosed by our conclusion that the district court's reliance was appropriate.

Quaker next contends that the district court's finding that there was "no evidence of actual confusion by any customers" precludes any likelihood of confusion. As we have stated many times, however, the plaintiff need not show actual confusion in order to establish *likelihood* of confusion. *International Kennel Club*, 846 F.2d at 1090; *Helene Curtis Industries, Inc. v. Church and Dwight Co.*, 560 F.2d 1325, 1330 (7th Cir. 1977); *Tisch Hotels, Inc. v. Americana Inn, Inc.*, 350 F.2d 609, 611-613 (7th Cir. 1965); *see also* 2 McCarthy, *supra* § 23:2, at 50-51. The

Weilbacher slogan study,[16] which showed a strong association between Gatorade and "Thirst Aid" on the part of consumers, tends to show that consumers faced with an isotonic beverage marketed under the name "Thirst Aid" would be likely to think it was produced either by the manufacturer of Gatorade or by another manufacturer who was trading off Gatorade's good will.

Further, we think that the district court erred in rejecting STW's evidence of another study performed by Weilbacher in which 24 percent of customers who were shown the label from the Pet test product stated that they thought the product was produced by Gatorade.[17] This is precisely the sort of study that this court has held to be the correct methodology for assessing consumer confusion. *James Burrough*, 540 F.2d at 278-79. The district court, however, refused to rely on the study because it did not expose the consumer to a product which he or she would find in the current marketplace. Given the court's use of the Pet product in assessing other factors and our view that the Pet product fairly represents the isotonic beverage STW would like to market but for Quaker's "Thirst Aid" campaign, we think that the district court erred in finding this evidence not probative of confusion. The Weilbacher label study clearly demonstrates that consumers would be likely to confuse an isotonic beverage marketed under the name "Thirst Aid" with Gatorade unless the producer of the new beverage made some special effort to distinguish

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[16] *See supra* note 14.

[17] When they were shown a label with the Pet brand name removed, the number who thought Gatorade produced or distributed the product went up to 35.4 percent.

its product. As we have noted, however, the senior user of the mark has no duty to take such measures.

Finally, Quaker contends that the district court erred in considering Quaker's intent in analyzing likelihood of confusion. We agree. Even in a traditional case of forward confusion the defendant's intent is relevant to the issue of likelihood of confusion only if he intended "to palm off his products as those of another," thereby profiting from confusion. *Forum Corp.*, 903 F.2d at 439. In a reverse confusion case, of course, the defendant by definition is not palming off or otherwise attempting to create confusion as to the source of his product. Thus, the "intent" factor of the likelihood of confusion analysis is essentially irrelevant in a reverse confusion case. As the district court noted, however, "[a] finding of fraudulent intent or bad faith is not essential to prove infringement where likelihood of confusion already exists." *Sands, Taylor & Wood*, 18 U.S.P.Q.2d at 1471 (citing *Henri's Food Products Co., Inc. v. Kraft, Inc.*, 717 F.2d 352, 359 (7th Cir. 1983); *Tisch Hotels*, 350 F.2d at 613). The district court's analysis of the other factors is sufficient to support its finding that there was a likelihood of confusion and, therefore, infringement.

V.

The district court awarded STW ten percent of Quaker's profits on sales of Gatorade for the period during which the "Thirst Aid" campaign ran -- $24,730,000 -- based on its finding that Quaker had acted in bad faith. The Court also ordered Quaker to pay STW's attorney's fees, again based on the finding of bad faith, as well as prejudgment interest on the award of profits beginning

from May 12, 1984. Quaker challenges all three of these rulings.

A. *Profits*

Quaker argues that an award of its profits was inappropriate here because there was no evidence that Quaker intended to trade on STW's good will or reputation; indeed, such an intent is necessarily absent in a reverse confusion case. According to Quaker, an award of the defendant's profits is justified only where the defendant has been unjustly enriched by appropriating the plaintiff's good will. There is some support for this position in the case law. "To obtain an accounting of profits, the courts usually require that defendant's infringement infer some connotation of 'intent,' or a knowing act denoting an intent, to infringe or reap the harvest of another's mark and advertising." 2 McCarthy, *supra* § 30:25, at 498. The law of this circuit is not, however, so limited. As we stated in *Roulo*:

> The Lanham Act specifically provides for the awarding of profits in the discretion of the judge subject only to principles of equity. As stated by this Court, "The trial court's primary function is to make violations of the Lanham Act unprofitable to the infringing party." [citation omitted] Other than general equitable considerations, there is no express requirement that the parties be in direct competition or that the infringer wilfully infringe the trade dress to justify an award of profits. [citation omitted] Profits are awarded under different rationales including unjust enrichment, deterrence, and compensation.

886 F.2d at 941. This broader view seems to be more consistent with the language of the Lanham Act than is the narrower (though perhaps more logical) rule espoused by Quaker. 2 McCarthy, *supra* § 30:28, at 514-15. We decline to adopt Quaker's restrictive interpretation in light of Seventh Circuit precedent.

Nevertheless, we are mindful of the fact that awards of profits are to be limited by "equitable considerations." The district court justified the award of profits based on its finding that Quaker acted in bad faith. The evidence of bad faith in this case, however, is pretty slim. The court based its finding on (1) Quaker's "failure to conduct a basic trademark search until days before the airing of the Thirst Aid commercial," and its "anonymous, cursory investigations" of Karp's use of the mark once it obtained such a search; (2) Quaker's decision to continue with the "Thirst Aid" campaign after it discovered Karp's registrations; (3) the fact that Quaker did not seek a formal legal opinion regarding potential trademark issues until after the first "Thirst Aid" commercials were aired; and (4) Quaker's failure to take "reasonable precautions" to avoid the likelihood of confusion. *Sands, Taylor & Wood*, 18 U.S.P.Q.2d at 1472-73.

None of these facts is particularly good evidence of bad faith. For example, Quaker's in-house counsel, Lannin, testified at trial that his review of the "Thirst Aid" campaign in February or March of 1984 did not include a trademark search because he concluded that the proposed advertisements used the words "Thirst Aid" descriptively, and not as a trademark, and therefore did not raise any trademark issues. The district court apparently accepted this testimony, but nonetheless found Quaker's failure to investigate indicative of bad faith. Further, the court

stated that it is a "close question" whether "Thirst Aid" is a descriptive term. Indeed, this court has found that the district court erred in concluding that "Thirst Aid" was not descriptive as a matter of law. A party who acts in reasonable reliance on the advice of counsel regarding a close question of trademark law generally does not act in bad faith. *Cuisinarts, Inc. v. Robot-Coupe Int'l Corp.*, 580 F. Supp. 634, 637 (S.D.N.Y. 1984).

Nor does Quaker's decision to proceed with the "Thirst Aid" campaign once it learned of Karp's registrations necessarily show bad faith. Based both on his earlier conclusion that "Thirst Aid" was descriptive and on his investigation into Karp's use of the term, which revealed that Karp was not currently using the THIRST-AID mark on any products sold at retail, Lannin concluded that Quaker's ads did not infringe Karp's rights in its marks. That conclusion was confirmed by the opinion Quaker obtained a few weeks later from its outside counsel, which concluded that Quaker was making a fair use of "Thirst Aid" because "'Thirst-Aid' [sic] is not used as a trademark on the product but rather clearly as a positioning statement or claim in advertising. It is used descriptively to inform the purchaser that the product will aid your thirst, and as a play on the words 'First Aid.'" Mem. re Use of Term "Thirst-Aid" as Advertising Claim for Gatorade at 7-8 (undated). "The fact that one believes he has a right to adopt a mark already in use because in his view no conflict exists since the products are separate and distinct cannot, by itself, stamp his conduct as in bad faith." *Nalpac, Ltd. v. Corning Glass Works*, 784 F.2d 752, 755 (6th Cir. 1986) (quoting *Mushroom Makers, Inc. v. R.G. Barry Corp.*, 441 F. Supp. 1220, 1230 (S.D.N.Y. 1977), *aff'd*, 580 F.2d 44 (2d Cir. 1978)). Even the defendant's refusal to cease using the mark upon demand is not

necessarily indicative of bad faith. Absent more, courts should "not make an inference of bad faith from evidence of conduct that is compatible with a good faith business judgment." *Munters Corp. v. Matsui America, Inc.*, 730 F. Supp. 790, 799-800 (N.D. Ill. 1989), *aff'd*, 909 F.2d 250 (7th Cir. 1990).

Quaker's failure to obtain a formal legal opinion from outside counsel until after the "Thirst Aid" campaign began is similarly weak evidence of bad faith. Given Lannin's sincere, reasonable conclusion that Quaker's ads used "Thirst Aid" descriptively, so that no trademark issue was raised, Quaker had no reason to seek the opinion of outside trademark counsel. Similarly, Quaker had no reason to take any precautions to avoid likelihood of confusion; Quaker's research had revealed that there was no product about which people were likely to be confused.[18]

A determination of bad faith is a finding of fact subject to the clearly erroneous standard of review. *Web Printing Controls Co. v. Oxy-Dry Corp.*, 906 F.2d 1202, 1205 n.3 (7th Cir. 1990). We cannot say on this record that the district court's conclusion was clearly erroneous. We do

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[18] The district court finds it indicative of bad faith that Quaker did not contact STW after receiving its trademark search, even though STW's name was "referenced on the trademark report." *Sands, Taylor & Wood*, 18 U.S.P.Q.2d at 1472. The reference to STW appears in a list of "Thirst Aid" uses found by searching various directories -- in the case of STW, the *Thomas Grocery Register*. STW's name does not appear on any of the federal registrations that the search turned up, nor does it appear anywhere in conjunction with Karp's name. Quaker's failure to contact STW based on the reference in the trademark report is at best weak evidence of bad faith.

think, however, that the evidence of bad faith here is marginal at best. Further, this is not a case where the senior user's trademark is so well-known that the junior user's choice of a confusingly similar mark, out of the infinite number of marks in the world, itself supports an inference that the junior user acted in bad faith. 2 McCarthy, *supra* § 23:33, at 147. There is no question that Quaker developed the "Thirst Aid" campaign entirely independently, with no knowledge of STW's marks. In such a case, an award of $24 million in profits is not "equitable"; rather, it is a windfall to the plaintiff. Quaker may have been unjustly enriched by using STW's mark without paying for it, but the award of profits bears no relationship to that enrichment. A reasonable royalty, perhaps related in some way to the fee STW was paid by Pet, would more accurately reflect both the extent of Quaker's unjust enrichment and the interest of STW that has been infringed. We therefore reverse the district court's award of profits and remand for a redetermination of damages. A generous approximation of the royalties Quaker would have had to pay STW for the use of the THIRST-AID mark had it recognized the validity of STW's claims seems to us an appropriate measure of damages, although perhaps not the only one. In any event, we can conceive of no rational measure of damages that would yield $24 million.[19]

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[19] Because neither Judge Ripple nor Judge Fairchild joins this part of the court's opinion, it expresses the individual views of Judge Cudahy. To enable this issue to be decided by majority vote, however, Judge Cudahy has no difficulty with deferring to Judge Ripple's view, expressed in his separate opinion, that the district court's award of damages should be reversed and remanded for "a more precise determination" not limited to a reasonable royalty. *Post* at 31. Thus,

(continued...)

B. *Attorney's Fees*

The Lanham Act provides for recovery of attorney's fees by the prevailing party in "exceptional cases." 15 U.S.C. § 1117(a). The district court concluded that this was such an exceptional case based on its finding that Quaker acted in bad faith. Because we affirm that finding, we also affirm the award of attorney's fees. The "equitable considerations" which lead us to reverse the award of profits do not apply to this issue.

C. *Prejudgment Interest*

As the district court noted, the Lanham Act is silent with respect to prejudgment interest. The court nevertheless decided to award such interest, relying on this Circuit's rule that "prejudgment interest should be presumptively available to victims of federal law violations. Without it, compensation is incomplete and the defendant has an incentive to delay." *Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 436 (7th Cir. 1989). Quaker argues that the Lanham Act's silence means that prejudgment interest is not available in an action for infringement under the Act. No court of appeals has accepted this argument, and we decline to do

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[19] (...continued)
Judges Cudahy and Ripple agree that, in recalculating the award of damages, the district court should be guided by the following principles: (1) the court may not simply award STW a percentage of Quaker's profits; (2) the court should use a reasonable royalty as a baseline or starting point for determining the appropriate award; (3) in determining the appropriate award, the court may take into account the possible need for deterrence, which may involve consideration of the amount of Quaker's profits.

so here. We do, however, vacate the award of prejudgment interest and remand for recalculation based on the redetermination of damages we have ordered.

VI.

For the foregoing reasons, the decision of the district court is AFFIRMED in part, REVERSED in part and REMANDED for further proceedings.

Ripple, *Circuit Judge*, concurring. I join the judgment of the court and all but part V of Judge Cudahy's comprehensive and thoughtful opinion. In my view, Quaker's corporate conduct in this matter deserves a somewhat less charitable appraisal than that presented in part V. Therefore, in assessing damages, I believe the district court, in the exercise of its discretion, might well place substantial emphasis on deterrence. *See Roulo v. Russ Berrie & Co., Inc.*, 886 F.2d 931, 941 (7th Cir. 1989). Therefore, I doubt very much that damages measured by a "reasonable royalty" (opinion 29) -- a speculative approximation itself -- necessarily would suffice in this case. Nevertheless, I agree with Judge Cudahy that the district court's use of a "percentage of profits" benchmark for the award of damages is difficult to sustain. I therefore concur in his conclusion that a more precise determination is appropriate.

Fairchild, *Senior Circuit Judge*, dissenting in part. Twenty-four million dollars ($24 million) is, indeed, a big number. It is, however, only 10 percent of the profit realized by Quaker out of the product it marketed by

using STW's mark. We are affirming the finding that Quaker used the mark in bad faith. The real question, it seems to me, is one of causation. What portion of Quaker's profit resulted from its use of THIRST AID, and therefore constituted unjust enrichment? I am unable to say that the district court's estimate of 10 percent was unreasonable or clearly erroneous. Quaker made no showing that it should have been a different number. The 90 percent ($216 million) of profit which Quaker retains is no paltry reward for everything it contributed to the success of the venture.

Therefore, I respectfully dissent from the decision to reverse the award.

APPENDIX B

No. 84 C 8075

IN THE

UNITED STATES COURT OF APPEALS

FOR THE SEVENTH CIRCUIT

September 2, 1992

JUDGMENT - WITH ORAL ARGUMENT

Before

Hon. Richard D. Cudahy, Circuit Judge

Hon. Kenneth F. Ripple, Circuit Judge

Hon. Thomas E. Fairchild, Senior Circuit Judge

No. 91-2876

SANDS, TAYLOR & WOOD, COMPANY,

Plaintiff - Appellee,

v.

THE QUAKER OATS COMPANY,

Defendant - Appellant.

Appeal from the United States District Court
for the Northern District of Illinois, Eastern Division.
No. 84 C 8075-Prentice H. Marshall, Judge.

ORDER

This cause was heard on the record from the above mentioned District Court, and was argued by counsel.

On consideration whereof, IT IS ORDERED AND ADJUDGED by this court that the judgment of the District Court is AFFIRMED in part, REVERSED in part and the case is REMANDED for further proceedings, in accordance with the decision of this court entered this date. Each party to bear its own costs.

(1061-030690)

A True Copy:
Teste:

Janet Kolb
Deputy
Clerk of the United States
Court of Appeals for the
Seventh Circuit

APPENDIX C

No. 84 C 8075

IN THE

UNITED STATES COURT OF APPEALS

FOR THE SEVENTH CIRCUIT

November 25, 1992.

Before

Hon. RICHARD D. CUDAHY, Circuit Judge

Hon. KENNETH F. RIPPLE, Circuit Judge

Hon. THOMAS E. FAIRCHILD, Senior Circuit Judge

No. 91-2876

SANDS, TAYLOR & WOOD COMPANY,

Plaintiff-Appellee,

v.

THE QUAKER OATS COMPANY,

Defendant-Appellant.

Appeal from the United States District Court
for the Northern District of Illinois, Eastern Division.
No. 84 C 8075-Prentice H. Marshall, Judge.

ORDER

On consideration of the petition for hearing and suggestion for rehearing en banc filed in the above-entitled cause, no judge in active service has requested a vote thereon, rehearing. Accordingly,

IT IS ORDERED that the aforesaid petition for rehearing be, and the same is hereby, DENIED.

A True Copy:
Teste:

Janet Kolb
Deputy
Clerk of the United States
Court of Appeals for the
Seventh Circuit

APPENDIX D

No. 84 C 8075

IN THE

UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

SANDS, TAYLOR & WOOD CO.,

Plaintiff,

v.

THE QUAKER OATS COMPANY,

Defendant.

MEMORANDUM ORDER

As a consequence of my December 18, 1990 decision in favor of the plaintiff, Sands, Taylor & Wood and against the defendant, The Quaker Oats Company, certain post-decision items remain open: (1) the terms of the injunction, (2) costs, (3) defendant's post-trial Gatorade profits, (4) the application of prejudgment interest and (5) plaintiffs' attorney's fees. Postdecision submissions have been made by the parties and status hearings have been

held. The parties have agreed that an evidentiary hearing is not necessary. I turn to these five items.

1. Injunction

Both parties submitted a proposed form of injunction. Plaintiff has agreed to defendant's submission. Accordingly, the language proposed by defendant will be adopted in the final judgment and decree.

2. Costs

Plaintiff submitted an itemized bill of costs pursuant to 28 U.S.C. § 1920(1),(2),(3), and (4). Defendant does not object to any of the costs claimed by plaintiff. Accordingly, the final judgment and decree will award costs to the plaintiff and against the defendant in the amount of $30,719.09.

3. Post-decision profits

The post-decision affidavit of Jane Richtsmeier disclosed that defendant continued to use THIRST-AID in its Gatorade advertising through December 20, 1990. Defendant asserted that its post-trial use was significantly diminished. I concluded that plaintiff was entitled to recover ten percent of defendant's Gatorade profits so long as the infringement persisted. Transcript of proceedings, Feb. 6, 1991, p. 4. *Wolfe v. National Lead Co.*, 272 F.2d 867, 869 (9th Cir. 1959); *Brunswick Corp. v. Spinet Reel Co.*, 832 F.2d 513, 526 (10th Cir. 1987).

Although defendant disputes this conclusion, it has disclosed its Gatorade profits through December 20, 1990 (which was roughly the half-way point of its fiscal year

1991). Those profits, commencing May 12, 1984 (the date of the first infringement) and extending through December 20, 1990 total $313,924,930. Ten percent of this amount, in accord with my decision of December 18, 1990, is $31,392,493 which plaintiff is now awarded.

4. Prejudgment interest

I held in the December 18, 1990 decision that plaintiff was entitled to prejudgment interest. *Gorenstein Enterprises v. Quality Care-USA*, 874 F.2d 431, 436 (7th Cir. 1989). The parties have debated the proper interest rate and whether the prejudgment interest should be compounded monthly or annually. The latter difference is significant to the tune of about $1,000,000.

The parties have now agreed upon the interest rate to be applied. They persist in their disagreement as to whether that rate should be applied monthly or annually. I conclude that the compounding should occur annually. Therefore, I adopt the computations submitted by defendant and award plaintiff prejudgment interest in the amount of $10,604,187.

See attachment to defendant's letter of April 22, 1991.

5. Attorneys' Fees

Plaintiff's president and chairman of the board, Frank E. Sands, II, testified at the trial that he timely paid the attorneys' fees and expenses billed him by his lawyers in this case. The post-decision submissions corroborate that testimony.

Of course, the fact that Mr. Sands agreed to and did pay the fees charged by his lawyers does not mean that they should be shifted to defendant under the rubric of a reasonable attorney's fee pursuant to 15 U.S.C. § 1117(a). I have held that this is an exceptional case entitling plaintiff to an award of attorney's fees. But the fees must be reasonable.

In its original submission, plaintiff sought hourly fees in the amount of $1,242,336, attorney expenses in the amount of $246,977.27 for a total of $1,489,313.27. To this sum, plaintiff seeks prejudgment interest from the time of payment (which was monthly) compounded monthly at the prime rate for a total of $1,914,744.90.

In support of its fee application, defendant submitted four volumes of individual billing slips without any summarization or breakdown by subject matter. Thus plaintiff ignored FMC *Corp. v. Varonos*, 892 F.2d 1308 (7th Cir. 1990) that a party should not merely "stack a pile of time sheets on the bench for the district court to analyze."

Defendant challenged the initial fee application on multiple grounds, which I will address momentarily. At the outset, however, I observe that defendant does not object to the hourly rate charged by plaintiff's counsel or their attorney expenses other than the reimbursement that plaintiff seeks for expert and consultant fees in an amount in excess of $147,000. In this regard, defendant asserts that *Crawford Fitting Co. v. J.T. Gibbons*, 482 U.S. 437, 438 (1987) held expert fees not recoverable absent explicit statutory authority.

At the threshold, defendant asserted that the application should be denied out of hand because plaintiff had submitted only the attorneys' gross time records. Defendant then went on to analyze carefully plaintiff's submission, urging that the time devoted to the engagement was excessive with regard to conferences, trial preparation, preparing for and attending depositions and reviewing, analyzing and studying various items. Defendant also contended that there was a substantial amount of duplication shown in the time records, claim was made for trial time when the case was not in trial, lawyers claimed time for an impossible number of hours in a given day (e.g. 50) and plaintiff had too many lawyers attending the trial (ignoring that defendant's trial "team" was not a one person performance).

Defendant also argued that plaintiff had failed to recover on all of its claims because I had rejected actual damages, corrective advertising and a reasonable royalty. In light of the totality of plaintiff's victory, this contention in the eyes of some beholders might flirt with Rule 11 of the Federal Rules of Civil Procedure. But I shall not be tempted by that thicket.

At a conference on February 6, 1991, I observed that some of defendant's objections were well taken and particularly that based upon *FMC Corp. v. Varonoa*, supra. Plaintiff's submission was just too burdensome. Accordingly, I instructed plaintiff's counsel to resubmit the application. I also admonished them to explain the tasks performed by counsel and to weed out duplicative efforts. I told them to "go back to your drawing board, and give a pretty close look at your application for fees" and "speak with greater care to the issues that you have as far as how services were rendered, what the subject matters were."

Tr. Feb. 6, 1991, at 24 & 12. Accordingly, I granted plaintiff permission to file a supplemental application.

It did so and this time there was some improvement. Lawyer hours were totalled under categories. But the categories remained quite vague: "trial preparation," "work re depositions," "legal research."

Once again defendant objected. It urged that the descriptions of lawyer services were too vague and that certain categories were clearly excessive, e.g., $428,913 for "trial preparation." It persisted in its assertions that there were duplicative efforts, too many lawyers, too much time devoted to legal research and preparation and again asserted that the petition should be denied in its entirety.

Plaintiff filed a reply. It pointed out that as of May 29, 1985 when I denied Quaker's motion for partial summary judgment on the doctrine of fair use, plaintiff's attorneys fees were only $69,000. Thereafter over 40 depositions were taken. Seventeen motions were submitted to the Court. Discovery disputes were commonplace. In short what started as a skirmish became a war. Nevertheless, plaintiff offered to withdraw significant portions of its application. Thus it suggested that lawyer expense be deleted in its entirety (not just the $147,000 for expert fees), and reductions made for multiple attendance at depositions, status calls and trial, preparation of non-testifying experts, and conferring and consulting. Other than as they were affected by multiple lawyers, there is no suggestion that trial preparation be reduced.

This litigation has been marked by contentiousness throughout. We strived in vain to get the case promptly

to trial. The first trial date was June 3, 1985. We closed discovery and the lawyers reopened it by agreement. The motion practice was taxing and fee producing and the discovery probably excessive on both sides.

Plaintiff has paid its attorney's fees. In exchange therefor, it has realized a handsome recovery. I have carefully reviewed all of the submissions made by both parties with respect to attorneys' fees. I would be interested in knowing what defendant's attorneys' fees have been, but plaintiff has not sought that information and I do not have it before me.

I perceive duplication of effort and excessive time on trial preparation. I accept plaintiff's proposed modification of its application contained in its submission of March 20, 1991.

As I have previously noted, defendant does not challenge plaintiff's hourly rate or the lawyer expenses other than the $147,000 in expert fees.

A fair and reasonable attorneys' fee award in this case is $500,000 plus $102,000 in lawyer expenses.

Finally, prejudgment interest should not be added to the award of attorneys' fees. I realize that Mr. Sand has spent the money and has been deprived of its use. But in all of the circumstances surrounding this fee application, it would be inequitable to further assess prejudgment interest against defendant.

A final judgment and decree will enter in accord with the foregoing.

ENTER:

Prentice H. Marshall
Senior Judge

DATED: July 9, 1991.

No. 84 C 8075

IN THE

UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

SANDS, TAYLOR & WOOD CO.,

Plaintiff,

v.

THE QUAKER OATS COMPANY,

Defendant.

FINAL JUDGMENT AND DECREE

On December 18, 1990, the court issued a memorandum opinion which incorporated its findings of fact and conclusions of law. Subsequent thereto, the parties submitted additional factual materials and legal memoranda. The parties agreed that a further evidentiary hearing was not necessary. The court's rulings with regard to the post-decision submissions are contained in its memorandum order of this date.

Now, thereupon, it is ORDERED, ADJUDGED AND DECREED:

1. Defendant, The Quaker Oats Company, has infringed the trademark rights of plaintiff, Sands, Taylor & Wood in plaintiff's registered trademark, THIRST-AID.

2. Commencing no later than 60 days from the date of this judgment and decree, defendant, The Quaker Oats Company, and its officers, agents, servants and employees, are hereby permanently enjoined and prohibited from using the phrase THIRST-AID in connection with the advertising and/or sale of Gatorade anywhere in the United States. The defendant is directed to destroy all labels, signs, prints, packages, wrappers, receptacles, video tapes, audio tapes, and advertisements bearing the THIRST-AID trademark within its custody and control, other than archival and file copies (and trial exhibits utilized in this case).

3. Within 90 days from the entry of this final judgment and decree, the defendant shall file with the court and serve on plaintiff a report setting forth the manner by which it has effected compliance with the foregoing injunction.

4. Plaintiff shall recover from defendant the sum of $31,392,493 together with prejudgment interest in the amount of $10,604,187 and attorneys' fees and expenses in the amount of $602,000 and costs in the amount of $30,719.09.

Accordingly, the Clerk will enter judgment pursuant to Rule 58 of the Federal Rules of Civil Procedure in favor of the plaintiff, Sands Taylor & Wood, and against

the defendant, The Quaker Oats Company, in the total amount of $42,629,399.09.

ENTER:

PRENTICE H. MARSHALL
Senior Judge

DATED: July 9, 1991

APPENDIX E

No. 84 C 8075

IN THE

UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

SANDS, TAYLOR & WOOD CO.,

Plaintiff,

v.

THE QUAKER OATS COMPANY,

Defendant.

MEMORANDUM OPINION

Prentice H. Marshall, Senior District Judge.

This is an action by plaintiff, Sands, Taylor & Wood Co. against defendant, the Quaker Oats Company for federal trademark infringement pursuant to 15 U.S.C. § 1051 et seq. and 15 U.S.C. § 1114 et seq. and other related business torts. During the closing arguments following a bench trial, we were advised by counsel for both parties that all of plaintiff's claims are subsumed by

the federal trademark claim with the result that that is the only claim we need decide.

The case has been tried to the court without a jury. This memorandum will stand as our findings of fact and conclusions of law pursuant to Rule 52(a) of the Federal Rules of Civil Procedure.

FACTS

The case involves defendant's use of words Thirst-Aid in its popular slogan "Gatorade is Thirst-Aid" sometimes followed by "for that deep down body thirst."[1] Plaintiff is and has been for many years the owner of three registered trademarks THIRST-AID, No. 443,950 for "nonalcoholic maltless beverages, sold as soft drinks, and syrups therefor"; No. 563,332 for "fruit, marshmallow, butterscotch, caramel, fudge, and crushed walnut sundae toppings; fruits and sauces used in the preparation of ice cream; fruit flavors used in the making of sherberts; ice-cream type marshmallow and hot chocolate powder"; No. 572,223 for "soda fountain syrups used in the preparation of maltless soft drinks." Affidavits respecting these registrations have been filed pursuant to 15 U.S.C. § § 1065 and 1115(b) and the registrations have become incontestable.

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[1] We have held on summary judgment that defendant's use of Thirst-Aid was not descriptive of Gatorade and therefore did not constitute fair use. Memorandum Opinion, May 29, 1985. We reaffirm that holding.

Plaintiff is incorporated in the state of Vermont and its principal place of business is in Norwich, Vermont. It was founded in 1790 by an ancestor of its current president and chairman of the board, Frank E. Sands, II, who is the fifth generation in the company.

Plaintiff was for 180 years engaged in the flour business selling flour in bags at retail in grocery stores (and more recently, supermarkets), under a well-established brand name and trademark "King Arthur Flour". Plaintiff does not own its own facilities for milling and packing its flour, its contracts out those functions. Presently plaintiff is a relatively small company of four employees, with a net worth of approximately $200,000. Its 1987 net sales were $3.7 million.

In 1973 plaintiff acquired Joseph Middleby, Jr., Inc., a 100 year old manufacturer of soft drink or maltless beverage mixes, soda fountain syrups, and related products. Middleby was the original registered owner of the THIRST-AID trademarks which plaintiff acquired. Middleby supplied syrups and various mixes to soda fountains and food service outlets which were resold under the trademark THIRST-AID. Plaintiff operated Middleby as a wholly owned subsidiary.

Middleby first used the trademark THIRST-AID in 1921 and obtained a registration for it in 1922 as No. 157,543 for "non-alcoholic maltless beverages, sold as soft drinks and syrups therefor."

In August 1942 when the original THIRST-AID registration expired, Middleby wrote its trademark attorney that it would like to have THIRST-AID re-registered because "it is one of our most popular classes

of products in the soda fountain line and is well known throughout New England and New York State." In February 1945 Middleby filed to re-register THIRST-AID for non-alcoholic maltless beverages sold as soft drinks and was placed in an interference in the trademark office with registrations issued to Three Feathers Distillery. Joseph Middleby prevailed in the interference in the trademark office with registrations issued to Three Feathers Distillery. Joseph Middleby prevailed in the interference based upon evidence submitted showing use of the THIRST-AID trademark continuously since 1921. Consequently registration No. 443,950 for THIRST-AID was issued to Middleby and the Three Feathers registrations were cancelled.

Thereafter, Middleby applied for two additional registrations for THIRST-AID, No. 563,332 for "fruit, marshmallow, butterscotch, caramel, fudge and crushed walnut sundae toppings; fruits and sauces used in the preparation of ice cream; fruit flavors used in the making of sherbert; ice cream type marshmallow and hot chocolate powder," issued in August, 1952, and No. 572,223 issued March 24, 1953 for "soda fountain syrups used in the preparation of maltless soft drinks." The three trademarks were renewed in 1970, 1972, and 1973 respectively, and today are in full force and effect.

Since 1921, Middleby (and since 1973 plaintiff) used the trademark THIRST-AID on a wide line of beverage products and syrups. The items were sold at retail to ice cream soda fountain shops. The drinks were variously described as fountain claret, fountain pure grape, grapefruit, lemon, orange, bottler's lemon and lime, and fountain yellow orange. Plaintiff's customers were supplied with various types of advertising including

THIRST-AID streamers to be put on windows and backbars of soda fountains, banners and paper fliers for in-store retail advertising, glasses, pitchers and dispensing barrels with the mark THIRST-AID embossed thereon for in-store advertising and promotion. Testimony of various former sales personnel of plaintiff subsequent to its acquisition of Middleby described these varying uses for periods as late as 1975, 1976 and 1984.

In addition to its beverage-oriented products, Middleby, before and after its 1973 acquisition by plaintiff, sold a line of ice cream oriented products such as crushed fruits, marshmallow, fudge, butterscotch, caramel and strawberry toppings which were sold under the THIRST-AID name.

THIRST-AID products have been prominently displayed at trade shows and containers for fudge and chocolate syrup were supplied to supermarkets and grocery stores. The products have been sold from coast to coast although their principal concentration was in New England and upstate New York.

While much of plaintiff's THIRST-AID activity was at the retail level, it also sold THIRST-AID products to the institutional trades such as food service distributors, hotels, restaurants, hospitals and camps.

Sales of THIRST-AID products began at $14,689 in 1921 (Middleby) and rose to $1,810,000 in 1977 (plaintiff). The mark was used on 195 different items. During the period 1973 to 1981 plaintiff had 240 active accounts for THIRST-AID products including 38 key accounts which included 23 distributors and 15 ice cream chains.

In 1975 plaintiff purchased the assets of the H.A. Johnson Company whose product line was comparable to Middleby. The Johnson assets were merged into Middleby and the name was changed to Johnson-Middleby Co., Inc. which was continued as plaintiff's wholly owned subsidiary.

Marketing conditions changed in the 1970's. There was a decline in the marketing of soft drinks in soda fountains, ice cream parlors and the like in the face of bottles and cans. Consequently, the sales of THIRST-AID soft drinks at retail diminished in the late 1970's.

In the late 1970's plaintiff experienced a severe financial depression occasioned by increases in commodity prices, energy prices and interest rates. Its 1977 profit of $414,000 declined to a loss of $130,000 in 1978 and by 1981 the loss had reached $1,083,000. Simultaneously its gross revenues dropped from $40,000,000 in 1979 to about $3.1 million in 1983. During this period plaintiff closed some old plants and sold Johnson-Middleby and other subsidiaries and most of its assets.

In December 1979 E.C. Forbes[2] was retained by the Grocery Products Division of Pet, Inc. as a consultant for

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[2] Defendant moved to bar Forbes' testimony because he has an agreement with plaintiff under which he has received $30,000 and expects to receive 12% of any recovery obtained by plaintiff in this action. The agreement certainly reflects on Forbes' credibility. But his testimony (particularly as it relates to the Pet isotonic beverage marketing) was material and essentially not disputed and should not be barred. We were also influenced by the tardiness of defendant's motion to bar which, if granted, could have left plaintiff without testimony regarding the Pet marketing. We express no opinion as to the enforceability of the agreement by Forbes against plaintiff.

new product development. One product that Pet was interested in was an isotonic beverage similar to the then very popular GATORADE which was being manufactured and marketed by Stokely Van Camp Company. Pet had decided to venture into the isotonic beverage market for three reasons. First, GATORADE was the leader in the isotonic beverage category and had no major competition. Second, Pet had developed an isotonic beverage which Pet believed was superior to GATORADE in flavor. Third, Pet owned the Musselman Apple Juice Company which had the necessary manufacturing facilities. Pet wanted a name for its contemplated product and settled upon THIRST-AID.

Pet conducted a trademark search and learned that THIRST-AID was owned by plaintiff's Johnson Middleby subsidiary. In the spring of 1980, Pet, through an intermediary, obtained a nationwide license from plaintiff to use THIRST-AID on its isotonic beverage. According to Pet's then vice-president Theodore Atkinson, Pet decided that THIRST-AID was an attractive name which, Atkinson felt "communicated what we wanted to communicate", which was the "ability of the product to quench thirst." Pet contacted Johnson Middleby because it owned the trademark THIRST-AID.

Starting in June 1980, Pet test-marked an isotonic beverage called THIRST-AID (under its license from plaintiff) in a bottle with a label bearing THIRST-AID in large letters adjacent to which appeared the registration symbol r. Forbes was responsible for the day to day management of the test. The test market was accompanied by newspaper television and radio advertising. THIRST-AID went head to head against GATORADE using the same advertising media, the same

channels of trade and selling to the same customers. While there is some dispute in the testimony regarding the percentage of the market which Pet's THIRST-AID attracted and the success of the test-market, the evidence shows that Pet garnered about twenty-five percent of the isotonic beverage market over a four month period of time against GATORADE in the test area.

Pet concluded for several reasons, among which was the sale of the Musselman facility where the isotonic beverage was made, that it would not enter the market with this new product. In June 1981 its license from plaintiff expired.

In December 1981 plaintiff sold the assets of its Johnson-Middleby subsidiary to L. Karp & Son, a Chicago based company selling bakery products of the wholesale and institutional trade. All of plaintiff's registered THIRST-AID trademarks were assigned to Karp. The documents of sale and assignment to Karp stated that the trademarks were conveyed for use with respect to certain "products" which were defined as "jams, jellies, pie fillings, custards, ice cream bases, and other similar bakery supplies." Plaintiff, selling as it was KING ARTHUR flour at retail, had some interest in the retail use of three of its assigned trademarks, one of which was THIRST-AID. Accordingly, it obtained a simultaneous exclusive license back of the trademark THIRST-AID for use at retail in perpetuity from Karp with respect to the "products."

Thereafter, plaintiff made efforts to resume the use of THIRST-AID at retail. For example, it maintained a file of beverage producers that might be interested in THIRST-AID as a trademark or for promotional

purposes. Additionally, plaintiff's president, Frank E. Sands, prepared a draft of a letter to be sent to soft-drink companies stating, "It occurs to me that THIRST-AID could be a very marketable name for a drink product. One concept would be for a Gatorade type product." In 1982 plaintiff contacted Fred Alper, a food broker with Morris Alper & Sons, Inc. about placing THIRST-AID at retail. Alper sent a list of proposed companies to plaintiff in December 1982. Plaintiff had a number of discussions with Robert Weiss Associates, a public relations firm in Boston, Massachusetts, as to possible uses of THIRST-AID. Further, in October 1983, plaintiff contacted a former advertising executive with Pepsi-Cola and then a marketing consultant with Block & Sylvester of Westport, Connecticut for suggestions on how to use THIRST-AID at retail. In 1983 plaintiff submitted to the graduate school of business administration at Harvard University a company problem which included how to utilize the trademark THIRST-AID for best return. Plaintiff requested that the trademark THIRST-AID be evaluated as to its potential marketability and then develop a creative marketing program for the best position and marketing of the mark.

Meanwhile Karp, in September 1983, entered into an agreement with Forbes, who had been involved in the Pet THIRST-AID test market, under which Forbes was made Karp's exclusive agent for the purpose of presenting and negotiating an agreement with a national consumer product company for the licensing of the trademark THIRST-AID. Karp expected Forbes to go out and aggressively pursue the opportunities to license THIRST-AID with a large marketing company of the calibre of the Pet Company.

Pursuant to his 1983 agreement, Forbes contacted Shasta Beverages of Hayward, California and Tropicana Products of Bradenton, Florida presenting them with a full presentation on the Pet THIRST-AID isotonic beverage test-marketing. Tropicana was receptive to the Forbes presentation. But its interest ended when it learned that defendant Quaker had launched its "GATORADE is Thirst-Aid" advertising campaign.

Meanwhile Karp, as the purchaser of Johnson Middleby assets and the trademarks in question continued to sell THIRST-AID products to the institutional field of bakeries, restaurants, hospitals, jails, schools, distributors, hotels and jobbers. At the present time, Karp sells ice cream toppings bearing the trademark THIRST-AID. The mark is used in conjunction with another of its trademarks - MURRAY'S - on large institutional cans of chocolate, fudge and butterscotch toppings. The labels prominently display the MURRAY's trademark and use THIRST-AID in much smaller type.

Plaintiff has diligently policed its trademark by demanding that others cease to use THIRST-AID in reference to products or promotions. In 1959 plaintiff denied permission to use THIRST-AID on bottled non-carbonated drinks. While the THIRST-AID license to Pet was in effect, plaintiff learned that a company in Covina, California was using Thirst-Aid for juice products. Plaintiff protested and was advised that the company has discontinued the use. The Marriott Camelback Inn in Scottsdale, Arizona used a theme "Thirst-Aid Station" in connection with a refreshment stand. Plaintiff objected and was advised by Marriott that it would no longer use the mark. Two other companies attempted to use the name "Thirst-Aid Station" but both discontinued their use

at the request of plaintiff. In 1984, a Chicago, Illinois company used Thirst-Aid in its advertising of various frozen concentrate juices. Plaintiff objected orally and in writing and the user apparently stopped as no current use of the Thirst-Aid name by the company is known.

During the course of this litigation defendant has produced a number of third party uses of the expression "Thirst-Aid". In each instance, save one, plaintiff has objected on the basis of its registration and has been advised that the use has been discontinued. The one exception was a child's lemonade stand.

The trademark THIRST-AID has been used continuously by plaintiff's wholly-owned subsidiary since 1921.[3] It has been used on various products including soft drinks and by license an isotonic beverage in direct competition with defendant's GATORADE. It is used today by plaintiff's assignee Karp on ice cream toppings. Until the commencement of this litigation, plaintiff, having discontinued the use of the mark on beverages (save for the Pet license in 1980-81), has manifested an intent to resume use of the mark whenever the opportunity presents itself. However, neither plaintiff, nor any predecessor of plaintiff has ever used THIRST-AID in connection with a packaged soft drink or beverage sold in a store at retail.

GATORADE was developed by a group of four urologists at the University of Florida in the late sixties. Its purpose was to quench thirst and replace the fluid and

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[3] Registration No. 443,950, however, which reads THIRST-AID with phrase "First Aid for your thirst" appearing underneath, has not been used since 1949.

minerals lost by the human body through strenuous exercise. In 1967, the University sold GATORADE to Stokely Van Camp which began to market it successfully. In August 1983 defendant, the Quaker Oats Company, purchased Stokely Van Camp as its wholly-owned subsidiary. By 1987 GATORADE had become defendant's single best selling brand. In that year defendant had net gross sales of all products of 4.4 billion dollars. It is a worldwide marketer of consumer products with 39 plant facilities in 17 states as well as 14 foreign countries and has in excess of 30,000 employees. At defendant's request and with plaintiff's consent, the financial data relating to GATORADE has been received under seal. Suffice it to say that GATORADE constitutes a significant portion of defendant's net sales.

In October 1983 defendant solicited proposals from three advertising agencies for a new campaign for GATORADE. Many themes were developed, submitted and considered. In the spring of 1984, the field had been narrowed to three: "Thirst-Aid", "Thirst Slayer" and "Recharge!".

Defendant had purchased television air time commencing May 12, 1984. Thus defendant had to make a decision as to which campaign to use by May 11. All themes were fully produced and ready to go. Defendant could choose any one of the three.

When defendant purchased Stokely Van Camp it was aware of Pet's test market and the use of the trademark THIRST-AID. In the spring of 1984 when THIRST-AID became one of the finalists, Charles Lannin, defendant's in-house trademark counsel, was informed by one of defendant's personnel of the prior use of THIRST-AID by

Pet on the same type product and in direct competition with Stokely Van Camp's GATORADE. Defendant contacted Pet in March 1984 and was told that their isotonic beverage had been discontinued a few years before.

Lannin then obtained a trademark search which disclosed plaintiff's three trademark registrations as well as the assignments to Karp and the license back to plaintiff.

Lannin directed a paralegal to make a telephone call to someone at Karp with regard to Karp's use of THIRST-AID. The person responded that he had no idea of what the paralegal was talking about. Although plaintiff was indicated on the search report for THIRST-AID, defendant made no effort to contact plaintiff. On this cursory investigation, defendant chose the campaign, "GATORADE IS THIRST-AID" and launched its nationwide television, radio and print media campaign.

Within three weeks of the launch, defendant was contacted first by Karp and then by plaintiff protesting the use of THIRST-AID. Meetings were held between defendant and counsel representing both Karp and plaintiff in which defendant was advised that if it did not discontinue the use of THIRST-AID, litigation would be instituted. Defendant was provided with a sample of the Pet label and samples of current Karp labels and told that Karp's THIRST-AID products were currently on the market.

Defendant did not discontinue its use of THIRST-AID and it persists in its use to the present time. While defendant uses other promotional and advertising

techniques, its slogan, GATORADE IS THIRST-AID, sometimes with the continuing statement "for that deep down body thirst", remains a dominant feature in its advertising program.

Defendant consulted outside counsel, Robert Newberry, Esq., a distinguished trademark lawyer. Mr. Newberry hastily prepared a memorandum which defendant now asserts was his opinion to it dealing with its use of THIRST-AID. During the early rounds of discovery, defendant did not identify and refused to produce the Newberry memorandum asserting that it was work product rather than an opinion of counsel. Mr. Newberry has testified that he prepared it as an opinion and delivered it to the defendant as such. While the memorandum lacks the normal indicia of a letter of opinion -- the memorandum is not addressed to anyone -- we accept Mr. Newberry's testimonial assurance that it was prepared and delivered as a letter of opinion.

Mr. Newberry expressed the view that the words Thirst-Aid were being used descriptively and, therefore, could not constitute an infringement of plaintiff's marks. He also advised his client that plaintiff may have abandoned the mark. But he admonished his client that GATORADE should be used in a dominant fashion so as to avoid any likelihood that Thirst-Aid would be regarded as having been used as a trademark by the defendant. The latter advice was not followed. Indeed, in many of defendant's advertisements, THIRST-AID is the dominant expression.

This action was filed in the fall of 1984. As it was being brought, plaintiff sought to have Karp join in the action for there was concededly some question as to the

current status of the ownership and license of the THIRST-AID mark. Karp elected not to become involved and so documents were executed under which Karp assigned the marks to plaintiff and plaintiff licensed Karp to use the marks at wholesale on the products described in the earlier documents evidencing the 1981 transaction between plaintiff and Karp.

Plaintiff asserts that defendant has infringed plaintiff's rights by using "Thirst Aid" prominently in advertising GATORADE as a trademark. Plaintiff claims that defendant has created a likelihood of confusion between defendant's use of THIRST-AID and the uses which plaintiff has made and intends to make of THIRST-AID. As such, plaintiff argues, it has lost the ability to use the mark in the future either directly or through licensing it to others. In addition to challenging the likelihood of confusion allegation, defendant contends that plaintiff abandoned the mark.

ABANDONMENT

We first address the defense of abandonment for, if sustained, it would be dispositive of the case. Defendant contends that plaintiff abandoned the THIRST-AID mark in two ways: first through non-use, and secondly, by an assignment in gross to Karp.[4]

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[4] In its trial brief, defendant also argued that plaintiff abandoned the trademark by failing to supervise and control the licensed use of THIRST-AID to its licensees. The parties did not raise the issue at trial nor did the court's review of the 2,200 pages of trial transcript reveal any significant testimony on the issue of supervision or control. Accordingly, this opinion excludes any discussion of that issue.

Rights in trademarks arise from use, not merely registration. *John Morrell & Co. v. Reliable Packing Co.*, 295 F.2d 314, 316 (7th Cir. 1961). The Lanham Act requires that trademarks be used in commerce in order to preserve an owner's rights therein. The term "use in commerce" means the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark. A mark shall be deemed "used in commerce,"

1) on goods when --

A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable then on the documents associated with the goods or their sale, and

B) the goods are sold or transported in commerce, . . .

15 U.S.C. § 1127 (1990).

Section 45 of the Lanham Act also provides that a mark shall be deemed to be "abandoned":

(1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for two consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the bona fide use of that

> mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.

Id.

Two elements are required for abandonment: 1) nonuse, and 2) intent not to resume use. *Saratoga Vichy Spring Co. v. Lehman*, 625 F.2d 1037, 1043 (2d Cir. 1980); *Silverman v. CBS, Inc.*, 666 F. Supp. 575, 577 (S.D.N.Y. 1987); *see, Saxlehener v. Eisner & Mendelson Co.*, 179 U.S. 19 (1900) (defendant must show acts indicating abandonment and actual intent to abandon).

The defendant has the burden of proving abandonment through clear and convincing evidence. See, J. McCarthy, *Trademarks and Unfair Competition* (2d ed. 1984), § 17:3(B), p. 772; see also, *Citibank, N.A. v. Citibanc Group*, 724 F.2d 1540, 1545 (11th Cir. 1984) (strict burden of proof applicable to abandonment claims); *Prudential Ins. Co. v. Gibraltar Fin. Corp.*, 694 F.2d 1150, 1156 (9th Cir. 1982) (since abandonment results in a forfeiture of a property interest, it must be strictly proved), *cert. denied*, 463 U.S. 1208 (1983); *P.A.B. Produits, Etc. v. Satinine Societa, Etc.*, 570 F.2d 328, 332-33 (C.C.P.A. 1978); see generally, Note, 56 Fordham L. Rev. 1003, 1017 (1988). As the statute indicates, two years of non-use creates a rebuttable presumption of abandonment. The burden of proof is on the party claiming abandonment, but when a prima facie case of trademark abandonment exists because of non-use of the mark for over two consecutive years, the owner of the mark has the burden of production to explain the nonuse or establish the existence of intent to resume use. *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 938 (7th Cir. 1989); *Silverman v. CBS, Inc.*, 870 F.2d 40, 46

(2d Cir. 1989); *AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1550 (11th Cir. 1986), *cert. denied*, 481 U.S. 1041 (1987); *Exxon Corp. v. Humble Exploration Co., Inc.*, 695 F.2d 96, 99 (5th Cir. 1983). However, the owner of the trademark need only produce evidence to rebut the presumption. If the owner does, the ultimate burden of persuasion of abandonment rests with the defendant. *Roulo*, 886 F.2d at 938.

NONUSE

Defendant argues that it could not have infringed plaintiff's trademark since neither plaintiff nor any company associated with plaintiff has used THIRST-AID on a beverage or soft drink since plaintiff acquired the rights in THIRST-AID in 1973. Defendant claims that since 1981, the only products bearing the mark THIRST-AID have been the chocolate syrup, fudge and butterscotch ice cream toppings sold by Karp under the MURRAY'S label. Consequently, defendant contends there is prima facie evidence that plaintiff abandoned the mark for beverages and soft drinks.

Defendant's contention that plaintiff's only use of THIRST-AID is on the Murray's label at the institutional level is clearly contrary to the law and the evidence. It is axiomatic that the trademark laws do not require direct competition between the parties' products for an actionable infringement claim. *Union Carbide Corp. v. Ever-Ready Inc.*, 531 F.2d 366, 382 (7th Cir. 1976). Consequently, lack of direct competition does not support an abandonment defense. That plaintiff primarily used the THIRST-AID mark at the institutional level on ice cream toppings while defendant marketed its product at

retail on an isotonic beverage does not constitute nonuse for purposes of abandonment. *Lyon Metal Products, Inc. v. Lyon, Inc.*, 134 U.S.P.Q. 31 (1962) (use of trademark through one channel of distribution does not constitute abandonment).

The evidence established that the THIRST-AID trademark was used continuously from 1921 to the present by either plaintiff, its predecessors or licensees as a mark on a wide line of beverage products, drinks syrups and ice cream toppings sold to soda fountains. From 1921 to 1973, the mark was used by Middleby. From 1973 to 1981 it was used by plaintiff after it acquired Middleby. From 1981 to 1984 it was used by Karp, and from 1984 to the present it was used by Karp as plaintiff's licensee.

Furthermore, the evidence showed actual use of the mark at retail when plaintiff licensed the mark to Pet, in June, 1980, for use on an isotonic beverage named "THIRST-AID" which competed directly with GATORADE. Although the test ran in only one market for a period of three months, it received extensive advertising and promotional support and ultimately achieved a respectable 25 percent market share. The business decision to discontinue the test was Pet's, and not plaintiff's. This use at retail was more than a "token" use. Furthermore, prior to, during and after the Pet test, plaintiff continued the use of the mark on products at the institutional level.

Defendant contends however, that plaintiff's failure to use the mark at retail either before or after the Pet test qualifies as prima facie abandonment. Plaintiff, however, presented evidence explaining the pre-test period of nonuse. Frank Sands, president of the plaintiff

corporation testified that the corporation experienced serious financial losses in the mid to late 1970's forcing the sale of its assets and termination of business contracts. These difficulties prevented plaintiff from pursuing its use of the mark at retail prior to the Pet test although its use at the institutional level continued. R. 330-332. Such financial difficulties are sufficient to explain the nonuse of a mark. See, *Star-Kist Foods v. P.J. Rhodes*, 769 F.2d 1393 (9th Cir. 1985); *Miller Brewing Co. v. Oland's Breweries*, 548 F.2d 349, 352 (CCPA 1976); *Kardex Systems, Inc. v. Sistemco N.V.*, 583 F. Supp. 803, 815 (D. Me. 1984); McCarthy § 17:4, at 776.

INTENT NOT TO RESUME USE

There is also substantial evidence to rebut an intent not to resume use. Plaintiff's agreement with Karp in December, 1981 for the sale of the trademark rights expressly included a license back to plaintiff of the use of the mark at retail. PX P, Para. 5(a). Sands testified that the license back provision was a critical part of the sale agreement and that the agreement would not have gone forward without it. R. 342.

As a result of retaining those rights, Sands made several attempts to use the mark at retail for soft drinks. In December, 1982, he contacted Fred Alper, a food broker who gave Sands a list of potential contacts who might be interested in using the mark on soft drinks. R. 349. Sands had also been in touch with the advertising firm of Robert Weiss Associates since the early 1970's and continuing into the early 1980's regarding ways to promote the THIRST-AID name. R. 350. Although never used, Sands drafted a letter in the fall of 1982 proposing

possible uses of THIRST-AID to various companies. R. 351, PX A-B. He also collected articles regarding companies who were using products that might be suitable for the THIRST-AID trademark. R. 356. He further submitted a proposal to the Harvard Business School's creative marketing course as a consulting project for students as to how to utilize the THIRST-AID mark. PX A-D, A-E. Sands contacted Norman Sylvester, a former advertising vice president of Pepsi Cola and then business consultant regarding ideas for using THIRST-AID for soft drinks. R. 360, PX B-Y.

The totality of plaintiff's efforts to find a product at retail for THIRST-AID reflect a clear intent to exploit the mark in the reasonably foreseeable future by permitting its use by others. See, *Silverman v. CBS, Inc.*, 870 F.2d 40, 47 (2d Cir. 1989). The license to Pet demonstrates plaintiff's desire to enter the isotonic beverage market and the fact that plaintiff licensed the mark to a manufacturer rather than producing its own isotonic beverage does not diminish the quality of its intent to use the mark. Coupled with the continuous use of THIRST-AID at the institutional level, the evidence refutes any suggestion of an intention not to resume use of the mark.[5]

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[5] However, Forbes' efforts to license THIRST-AID to Shasta and Tropicana in 1983 and 1984 respectively, do not evidence plaintiff's intent to resume use of the mark at retail. Forbes entered into an agreement with Karp-Johnson Middleby on September 1, 1983 under which Forbes "would make presentations to selected national companies to promote the exclusive license of the use of the trademark . . . in connection with the sale and distribution of a soft drink beverage to retail stores." PX Q. Forbes was Karp's exclusive agent for THIRST-AID for soft drinks at retail contrary to the alleged scope of the 1981

(continued...)

ASSIGNMENT IN GROSS

Alternatively, defendant maintains that plaintiff abandoned the mark because the 1981 and 1984 assignments of the mark to Karp were transfers in gross.

The transfer of a trademark apart from the good will of the business which it represents is an invalid "naked" or "in gross" assignment. An assignment in gross of a trademark operates to pass no rights to the assignee. McCarthy, supra, § 18:5; see, 15 U.S.C. § 1060. As the Supreme Court has made clear, "There is no such thing as a property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed." *United Drug Co. v. Rectanus Co.*, 248 U.S. 90 (1918). Good will is an intangible asset, defined as "the favorable consideration shown by the purchasing public to goods known to emanate from a particular source." *White Tower System, Inc. v. White Castle System, etc.*, 90 F.2d 67, 69 (6th Cir. 1937); see, McCarthy, *supra*, § 2:7, p. 72. Good will is the advantage obtained from use of a trademark. It includes public confidence in the quality of the product and the name recognition of the product by the public that differentiates that product from others. *Premier Dental Prods. v. Darby Dental Supply Co.*, 794 F.2d 850, 853, n. 3 (3d Cir. 1986). Although an assignment states that a mark is assigned "together with the good will" such a recitation is not

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[5] (...continued)
Karp-Sands license back arrangement. Forbes' efforts to license THIRST-AID to Tropicana and Shasta cannot be imputed to plaintiff as he was not acting on plaintiff's behalf.

necessarily dispositive. *Money Store v. Harriscorp Finance, Inc.*, 689 F.2d 666, 676 (7th Cir. 1982).

The rationale for the prohibition against assignments in gross stems from the nature of trademarks themselves. They identify the source of the goods and services offered. A key objective of the law of trademarks is protection of the consumer against being misled or confused as to the source of the goods or services the consumer acquires. Thus, to avoid consumer confusion as to established associations with the mark, any assignment must ensure that it continue to be associated with the same or similar products after the assignment. *Visa U.S.A., Inc. v. Birmingham Trust National Bank*, 696 F.2d 1371, 1375 (Fed. Cir. 1982).

In November 1981, plaintiff sold all the assets of Johnson-Middleby to Karp, a bakery and restaurant supply business. The next month, plaintiff, through Johnson-Middleby entered into an agreement with Karp assigning its THIRST-AID mark to Karp. The agreement recited that plaintiff assigned all of its "right, title, ownership and interest in and to the Trademarks and all goodwill appurtenant thereto." PX P, ¶ 2. However, the agreement reserved for plaintiff the exclusive right and license "in perpetuity to use the [THIRST-AID mark] in connection with the manufacture, marketing, sale and other commercialization of the Products in retail trade only and not institutional trade provided acceptable quality standards . . . are maintained." *Id.* § 5(a). The term "products" was specifically defined in the agreement as "jams, jellies, pie fillings, custards, ice cream bases and other similar bakery products. Soft drinks and beverages were not included in the definition of the term "products".

When defendant failed to cease using its "GATORADE is THIRST AID" campaign in the summer of 1984, plaintiff asked Karp to join as a co-plaintiff. Karp declined. At Karp's suggestion, the parties agreed to reassign the THIRST-AID registrations to plaintiff. The agreement stated that plaintiff "is desirous of acquiring the ownership of said trademark and the registrations, and the right to sue and collect damages for past and future infringements thereof in the retail trade field, subject to the retention by [Karp] of its exclusive rights to use 'thirst-aid' in the institutional trade field. . . ." Pursuant to the agreement, Karp was granted an exclusive license back of the rights to THIRST-AID in the institutional trade. PX G.

Defendant contends that the foregoing assignments failed to transfer any goodwill to plaintiff at the retail level since THIRST-AID had only been used in connection with ice cream and fountain products sold to the institutional trade. Defendant claims that good will exists with respect to that market alone and not the retail market. In other words, defendant argues that because Karp had no ongoing retail business using the THIRST-AID mark, the rights to the mark were transferred completely apart from any business or good will and therefore, plaintiff received a "naked assignment."

Defendant argues that plaintiff received no tangible assets from Karp that would have allowed it to continue the goodwill which its business had acquired. This circuit has made clear, however, that the transfer of tangible assets need not be part of a valid assignment. *Money Store v. Harris Corp. Finance, Inc.*, 689 F.2d 666, 676 (7th Cir. 1982) ("it is not necessary to the continuing validity of the

mark that tangible assets of the assignor pass to the assignee".)

Defendant urges the court to follow the Eighth Circuit's decision of *Pepsico, Inc. v. The Grapette Co., Inc.*, 416 F.2d 285 (8th Cir. 1969). In that case, the mark "Peppy" had been used on a cola drink. The mark was assigned to Grapette Co. Grapette acquired no tangible assets from the assignor, nor any process or formula for producing the beverage. Grapette then used the "Peppy" mark on a pepper-type beverage. The court noted that:

> "Inherent in the rules involving the assignment of a trademark is the recognition of protection against consumer deception. Basic to this concept is the proposition that any assignment of a trademark and its good will (with or without tangibles or intangibles assigned) requires the mark itself be used by the assignee on a product having substantially the same characteristics."

Id. at 288.

The court reversed the lower court's holding that Pepsico could not obtain injunctive relief on the ground that it was guilty of laches. Grapette's use of the laches defense would have been effective had it validly been assigned the use of the trademark "Peppy" which was found to be an infringing mark. In disposing of the laches defense, the court found that the assignment of the trademark "Peppy" was invalid, as it was "an assignment in gross." The court found that Grapette wanted to use the "Peppy" name to describe a totally new pepper beverage rather than a cola beverage and that it

> "did not intend to or exploit any 'good will' from the name 'Peppy' and Fox's long association and use of it with a cola syrup. When one considers that Grapette did not acquire any formula or process by which the . . . syrup was made, . . . and then changed the type of beverage altogether, the assignment on its face must be considered void."

Id. at 290.

Although here the mark had not been used at retail since 1981, three years prior to the commencement of this action, plaintiff diligently pursued several opportunities to reactivate its use at retail. Plaintiff expressed its intent to exploit the "good will" of the assigned trademark by diligently seeking to license the mark to other companies, by diligently policing unauthorized use of the mark and by planning to use the mark at retail on a beverage. Thus, unlike *Grapette*, plaintiff intends to apply the mark in a manner substantially similar to its previous use. See, *Money Store v. Harriscorp Finance, Inc.*, 689 F.2d 666, 677-78 (7th Cir. 1982); *Main Street Outfitters v. Federated Department Stores*, 730 F. Supp. 289, 290 (D. Minn. 1989).

While no tangible assets were transferred, the good will associated with THIRST-AID was explicitly transferred pursuant to the language of the agreement. The transfer of goodwill alone is sufficient to take the transfer out of the category of an assignment in gross so long as there is in fact goodwill associated with the mark in commerce. *Kardex Systems, Inc. v. Sistemco N.V.*, 583 F. Supp. 803, 819 (D. Me. 1984); see also, *The Money Store v. Harriscorp Finance, Inc.*, 689 F.2d 666, 676-78 (7th

Cir. 1982); *Glamorene Products Co. v. The Proctor & Gamble Co.*, 538 F.2d 894 (C.C.P.A. 1976).

Based on the evidence presented at trial, we cannot say that the THIRST-AID mark did not acquire good will at the retail level which was not then subsequently transferred by virtue of the assignments. This is not a case where the mark has never been used at retail. See, e.g. *Haymakers Sports, Inc. v. Turian*, 581 F.2d 257 (C.C.P.A. 1978) (assignment invalid where assignees-attorneys never used the mark). Plaintiff had used the mark at retail for many years on soft drinks and had used the mark at retail on an isotonic beverage product during the Pet test, albeit those uses occurred prior to the date of either assignment. Pet's use of the mark generated goodwill from the consuming public in that geographic area. Plaintiff's licensee advertised the product and the THIRST-AID mark was the symbol by which the product was advertised. As a result of the advertising and promotion efforts, the product attracted a substantial number of customers as evidenced by the respectable market share the product achieved.

The good will generated from the test was thereafter transferred via the assignments. Pet at the time was a licensee while plaintiff remained the owner of the mark. Therefore, the good will associated with THIRST-AID at retail belonged to plaintiff. When plaintiff assigned the rights to THIRST-AID to Karp in 1981, Karp received the good will which the mark had attained at retail. Karp, as the assignee was the legal owner of the mark while plaintiff was merely a licensee with the right to *use* the mark. When Karp reassigned the trademark rights at retail to plaintiff in 1984, the good will was transferred

back to plaintiff. Thus, the mark's good will was not diminished by any of the transfers.

Defendant also cites *Greenlon, Inc. of Cincinnati v. Greenlawn, Inc.*, 542 F. Supp. 890 (S.D. Ohio 1982) and *Tandy Corp. v. Malone*, 769 F.2d 362 (6th Cir. 1985), both of which are readily distinguishable. In *Greenlon*, the court declared an assignment invalid as an assignment in gross because the assignor retained his business and all tangible and intangible assets, including the right to do business under the mark. The assignor explicitly retained the goodwill associated with his business. He also continued to operate his business as he had before the agreement was consummated. Here, the assignment explicitly transferred the goodwill of the THIRST-AID mark and Karp relinquished all rights to the mark at retail. Although Forbes attempted to license the mark to retail companies on Karp's behalf, these efforts were in contravention of the Karp-Sands assignment.

In *Tandy*, the defendants were initially in the grocery retail business but decided to venture into the retail auto parts business. The defendants were given permission to use the mark AUTO-SHAK by the owner who used the mark in the Phoenix area. The court held that the arrangement was a naked assignment reasoning that had the owner sold the business and the mark, he would have assigned both the business and the goodwill. We find *Tandy* distinguishable from this case since, as in *Greenlon*, the owner of the mark in *Tandy* did not relinquish the right to conduct the retail auto business but continued to carry on his business. Here, Karp expressly assigned the mark to plaintiff and the right to conduct business at retail.

Finally, defendant relies on *Warner-Lambert Pharmaceutical Co. v. General Foods Corp.*, 164 U.S.P.Q. 532 (TMTAB 1970). In that case, the court held that the sale of the mark without the inventory, labels, or customer lists, was "in gross" and conveyed nothing to the buyer. The court noted that the assignor had never used the mark, Nutrident, for a mineral vitamin preparation. Here, plaintiff as the assignor in the 1981 assignment to Karp had used the THIRST-AID mark at retail. Further, *Warner-Lambert* is contrary to this circuit's decision in *Money Store* that the transfer of tangible assets is not necessary to effect a valid assignment nor is it in line with the clear trend in the law.[6]

Because we find that the mark was assigned with the goodwill emanating from the Pet test and the express language of the assignment transferring the mark's goodwill, the assignment is valid. Plaintiff did not abandon the THIRST-AID mark by an assignment in gross.

THE KARP-SANDS AGREEMENT

Defendant argues that the license back to plaintiff did not include the right to use the mark at retail on beverages since beverages were not specifically listed in the definition of products. Defendant maintains that the right to use the mark on beverages was retained by Karp

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[6] "While the case law turns on the exact nature of the goods and services, the clear trend is that a transfer of tangible or physical assets is not crucial." McCarthy, *supra*, § 18:7, p. 814.

as evidenced by the conduct of Karp, O'Connor, and Goldman and Karp's agreement with Forbest R. 2006.

Defendant urges that we apply the four corners test, which states that if a written contract is clear "on its face", evidence may not be introduced to vary its apparent meaning. In doing so, we first examine the language of the 1981 and 1984 agreements. In the 1981 agreement, plaintiff assigned to Karp "all of its right, title, ownership and interest in and to the Trademarks and all goodwill appurtenant thereto." PX P, p. 3. As part of the agreement, Karp granted plaintiff "the exclusive right and license in perpetuity to use the [marks] . . . in connection with the manufacture, marketing, sale and other commercialization of the Products in retail trade only and not institutional trade provided acceptable quality standards described below are maintained." *Id.* at 5. The agreement defined "Products" to "mean jams, jellies, pie fillings, custards, ice cream bases and other similar bakery supplies." *Id.* at 2.

The 1984 agreement reassigned the marks at retail to plaintiff. The assignment language provided that Karp assigns to plaintiff "all right, title and interest in and to the trademark and the said registrations including the continued exclusive right to use the trademark THIRST-AID in the retail trade field only, together with any goodwill of the business symbolized by the trademark . . ." PX G, P. 2. However, the 1984 agreement also gave Karp the "exclusive right and license in perpetuity to use the trademark 'THIRST-AID' in connection with the manufacture, marketing, sale and other commercialization of the Products in institutional trade only and not retail trade . . ." *Id.* p. 2-3. In both agreements, the term "Products" is omitted from the assignment clause and

appears to be a very broad right of the use of the mark at retail. Contrarily, the license back provisions specifically reference the term "Products."

Since the license-back clauses in both assignments include the term "Products", logic dictates that the agreements be read *in pari materia* and are therefore intended to limit the licensee's right to use to those products listed in the definition. Thus, looking within the "four corners" of the agreements, the assignment language appears to confer extremely broad rights of ownership while the license back provisions limit use of the mark to the defined products. Under the interpretation of the assignments, although plaintiff's use of THIRST AID was limited to the defined products while it was a licensee, that restriction did not apply once the right of ownership was reassigned in 1984.

LIKELIHOOD OF CONFUSION

To succeed on a trademark infringement claim under the Lanham Act, plaintiff must show a likelihood of confusion as to the source of the goods at issue.[7] *G. Heileman Brewing Co. v. Anheuser-Busch*, 873 F.2d 985, 999 (6th Cir. 1989); *Liquid Controls, Corp. v. Liquid*

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[7] The first element which plaintiff must establish in a trademark infringement claim is that the mark is protectible. We considered that issue with respect to our ruling of May 29, 1985 wherein we denied defendant's motion for summary judgment on the issue of fair use. We noted that the issue of whether the use is descriptive is the same for the fair use defense as it is for determining whether a mark is protectible. *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 796 (5th Cir. 1983).

Control Corp., 802 F.2d 934, 939-40 (7th Cir. 1986); *Technical Publishing Co. v. Lebhar-Friedman, Inc.*, 729 F.2d 1135, 1142 (7th Cir. 1984); *Miller Brewing Co. v. Jos. Brewing Co.*, 605 F.2d 990, 997 (7th Cir. 1979).[8] Likelihood of confusion exists when consumers viewing the mark would probably assume that the product or service it represents is associated with the source of a different product or service identified by a similar mark. *James Burrough Ltd. v. Sign of the Beefeater, Inc.*, 540 F.2d 266, 275 (7th Cir. 1976). Whether there is a likelihood of confusion is a question of fact. *The Forum Corp. v. The Forum Ltd.*, 903 F.2d at 438, 438 (7th Cir. 1990); *G. Heileman Brewing Co. v. Anheuser-Busch, Inc.*, 873 F.2d at 999; *Int'l Kennel Club of Chicago, Inc. v. Mighty Star, Inc.*, 846 F.2d 1079, 1087 (7th Cir. 1988); *Henri's Food Prods. Co., Inc. v. Kraft, Inc.*, 717 F.2d 352, 354 (7th Cir. 1983).

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[8] This test comports with the express language of the Lanham Act which provides:

> "Any person who shall, without the consent of the registrant -
>
> (a) use in commerce any reproduction . . . of a registered mark in connection with the sale, offering for sale, . . . or advertising of any goods . . . on or in connecting with such use is likely to cause confusion, or to cause mistake, or to deceive; . . . shall be liable in a civil action by the registrant for the remedies hereinafter provided.

15 U.S.C. § 1125(a).

Plaintiff asserts that this is a case of reverse confusion. It contends that any attempt to reestablish the THIRST-AID mark in the future would be futile in light of defendant's advertising campaign. In a reverse confusion case,

> "the plaintiff is typically a small business which has adopted and used a trademark on a relatively small scale. The defendant, a much larger business, thereafter begins using the same or a confusingly similar mark and advertising it on a massive scale. The public, conditioned by the latecomer's extensive use, comes to believe, erroneously, that the plaintiff's product originates with the defendant. This is the reverse of the usual situation, in which the plaintiff's mark is well known and the public is confused into believing that the defendant's product originates with the plaintiff."

1 Gilson, *Trademark Protection and Practice*, § 5.01 (1989). See, e.g., *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365, 1371-72 (10th Cir. 1977), *cert. dismissed*, 434 U.S. 1052 (1978); PAF *S.R.L. v. Lisa Lighting Co., Ltd.*, 712 F. Supp. 394, 410 (S.D.N.Y. 1989) (reverse confusion is the misimpression that the second

comer is the source of the original product).[9] However, in both direct and reverse confusion the plaintiff must prove a likelihood of confusion. *Pignons S.A. de Mecanique de Precision v. Polaroid Corp.*, 657 F.2d 482, 492, n.4 (1st Cir. 1981).

The Seventh Circuit has identified seven factors in determining likelihood of confusion: 1) the distinctiveness of the trademark in issue; 2) the similarity of the marks; 3) the similarity of the products; 4) the similarity of the channels of distribution; 5) the identity of the advertising media utilized; 6) the intent of the alleged infringer; 7) and evidence of actual confusion. *Henri's Food Products Co., Inc. v. Kraft, Inc.*, 717 F.2d 352, 354 (7th Cior. 1983). No one factor is dispositive of the likelihood of confusion issue and different factors will weigh more heavily depending on the facts and circumstances of the case involved. *Schwinn Bicycle Co. v. Ross Bicycles, Inc.*, 870 F.2d 1176, 1184-85 (7th Cir. 1989) (quoting *McGraw-Edison Co. v. Walt Disney Productions*, 787 F.2d 1163, 1167 (7th Cir. 1986); *Int'l Kennel Club v. Mighty Star, Inc.*, 846 F.2d at 1087. However, this circuit has stated that of the seven factors, three of them -- similarity of the marks, intent of the alleged infringer, and evidence of actual confusion -- are the "more important." *G. Heileman Brewing Co. v. Anheuser-Busch, Inc.*, 873 F.2d 985, 999 (7th Cir. 1989); *Ziebart International Corp. v. After Market Associates*, 802 F.2d 220, 226 (7th Cir. 1986); *Henri's Food*,

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[9] Although the Seventh Circuit has not formally recognized reverse confusion under the Lanham Act, courts have recently expressly held that "reverse confusion" cases are actionable under the federal statute. See, *Banff, Ltd. v. Federated Department Stores, Inc.*, 841 F.2d 486, 490-91 (2d Cir. 1988); see also, *Sources Services Corp. v. Source Telecomputing Corp.*, 635 F. Supp. 600 (N.D. Ill. 1986).

supra, at 355. Plaintiff bears the burden of proving a likelihood of confusion. See, *Lindy Pen Company, Inc. v. Bic Pen Corp.*, 725 F.2d 1240, 1243 (9th Cir. 1984); *G. Heileman Brewing Co. v. Anheuser-Busch Inc.*, 676 F. Supp. 1436, 1494 (E.D. Wisc. 1987), *affirmed*, 873 F.2d 985 (7th Cir. 1989). To establish likelihood of confusion, it is not necessary that there be actual confusion, direct competition between the parties, or intentional infringement. *Tisch Hotels, Inc. v. Americana Inn, Inc.*, 350 F.2d 609, 611-13 (7th Cir. 1965). With these principles in mind, we turn to an analysis of the evidence.

SIMILARITY OF THE MARKS

A trademark is confusingly similar to a prior trademark if it is similar in "sight, sound and meaning." *Henri's Fooed Products Co. v. Kraft, Inc.*, 717 F.2d 352, 355 (7th Cir. 1983); see also, *Watkins Products, Inc. v. Sunway Fruit Products, Inc.*, 311 F.2d 496, 499 (7th Cir. 1962) (a trademark is confusingly similar to prior trademark if similar in sound, appearance, or suggestive connotation). It cannot be reasonably argued that plaintiff's mark and defendant's slogan are dissimilar. The fact that defendant's use of the term is part of a slogan instead of a product name is immaterial to an infringement claim. 1 Gilson, supra, § 5.09[1], p. 5-153.

Upon reviewing the television and print advertisements received in evidence, we observe that the phrase "Thirst Aid" is an integral part of the Gatorade campaign. In the television commercials, the words Thirst Aid are superimposed on the screen in large block letters, while the lyrics to the background music recite the theme "Gatorade is Thirst Aid, for that deep down body thirst".

PX E-1. Correspondingly, the same block lettered version appears in numerous print advertisements. PX K-H. The appearance of Thirst Aid is dominant, bold, and captivating, and cannot be ignored. The only difference between the appearance of plaintiff's mark and defendant's use of it in its slogan is that plaintiff occasionally used a hyphen between Thirst and Aid and defendant's use is preceded by the words "Gatorade is . . ." . The large bold print used in defendant's advertisements is very similar to the THIRST AID label used on the Pet test product, which did not contain a hyphen.

SIMILARITY OF PRODUCTS AND DISTRIBUTION

Both plaintiff, through its license with Pet, and defendant, have used THIRST-AID on an isotonic beverage distributed through retail foods stores. And plaintiff historically has used its mark on soft drinks served at retail.

EVIDENCE OF ACTUAL CONFUSION

There was no evidence of actual confusion by any consumers. However, the parties presented the results of surveys conducted by their respective expert witnesses.

Plaintiff introduced the survey evidence and testimony of William Weilbacher, a marketing consultant. Weilbacher was contacted by plaintiff after having received the test results of a consumer study conducted by defendant's expert, Dr. Yoram Wind, Professor of Marketing at the Wharton School of Business of the

University of Pennsylvania. Weilbacher conducted two surveys in five markets involving 75 respondents in each market. Weilbacher's research simulated the methodology of Wind's consumer study using the same markets, screening procedures, questions, and universe. The first study explored consumers' perceptions of what company products or distributes THIRST-AID. The purpose of the study was to determine consumer perceptions of the source of the product "THIRST-AID". Weilbacher first conducted a pilot study in which he showed consumers the label from the THIRST-AID product used in the Pet test and asked them who they thought manufactured the product. According to Weilbacher's study, 44 percent of those surveyed responded that Pet produced the product while 24 percent stated that Gatorade did so. R. P. 128. Weilbacher concluded that the Pet name was contaminating the study so he removed the Pet name from the label. In the actual study, using the THIRST-AID label without the Pet name, 35.4 percent of the respondents stated that they thought Gatorade produced or distributed the THIRST-AID product. PX H-U.

Weilbacher performed a second study which was designed to measure consumer association of company and/or brand names with advertising slogans. The purpose of the study was to determine whether and to what extent consumers associate "Gatorade" with the advertising slogan "_____ is thirst aid". The responded was presented with the following five slogans:

"For all you do this _____ for you."
" _____ the right choice."
" _____ is thirst aid."
"Who could ask for anything more? _____'
"Fly the friendly skies of _____."

A total of 375 consumers responded to the study. The survey results showed that 79.2% completed the advertising slogan "_____ is thirst aid" with the brand name GATORADE. PX H-5. Weilbacher testified that the results showed a very high level of consumer identification, making it unlikely that plaintiff could license the mark because of the strong linkage between Gatorade and THIRST-AID.

In opposition, defendant introduced the consumer survey evidence of Dr. Yoram Wind. The purpose of Wind's study was to measure whether consumers confuse the THIRST-AID name as it is actually used, with the "Gatorade is Thirst Aid" advertising theme. DX 88. The study was conducted among 200 current nad potential consumers of Gatorade. Wind rejected using the Pet product as an appropriate stimulus since, in his view, that product was a test product which had failed. R. 1665. In Wind's opinion, the MURRAY's product reflected true market conditions since that was the product actually on the market, albeit only at the institutional level. Each respondent was presented with a color photograph of the MURRAY's THIRST-AID product. After viewing the photograph, the respondent was asked four questions:

1. Who do you think produces or distributes this product?

2. What makes you think so?

3. Are there any other products that are produced or distributed by the same company that produces or distributes the product in the photograph?

4. Which ones?

In response to question 1,63.5% mentioned MURRAY's as the producer or distributor of the product. Not one respondent cited the Quaker Oats Company or Gatorade as the manufacturer. Of those, 61% stated in response to question 2 that they though MURRAY's produced it because the name was on the can. In response to question 3,21.5% thought that the company produces other products, and in response to question 4, 28% stated that MURRAY's produced other toppings and syrup products. Based on these results, Wind concluded that "consumers in no way associate Gatorade with the Thirst-Aid product." DX 88.

Wind also performed the same study among trade members since the MURRAY'S THIRST-AID product was sold to the trade. The study was conducted to assess whether trade buyers confuse the THIRST-AID name used by Karp with Gatorade's Thirst-Aid slogan. DX 89. The sample included known Thirst-Aid buyers and a sample of 60 buyers for ice cream parlors, dealers and distributors. Wind's findings and conclusions were identical to those in the consumer study. He found that trade buyers in no way associate Gatorade with the Murray's Thirst-Aid product.

"Consumer perception should be assessed by examining the average potential consumer in the context of the existing marketplace and *exposed to the information currently in the marketplace*." *G. Heileman Brewing Co. v. Anheuser-Busch, Inc.*, 873 F.2d 985, 995 (7th Cir. 1989)(emphasis added). Both consumer surveys fail to reflect existing market conditions because neither test exposed the consumer to a product which they would find in the current marketplace. Weilbacher's study used the

THIRST-AID product which has not been used at retail for several years.

The MURRAY's product used by defendant's expert is marketed solely to the trade, and not to the general public. Since consumers are not exposed to the product, they cannot possibly be aware of it. And there is no evidence that the MURRAY's can has or ever will be marketed in its current form to consumers. Hence, the opportunity for confusion between the MURRAY's label and the GATORADE slogan simply cannot exist.

Moreover, the fact that no respondent named the defendant as the manufacturer of the MURRAY's product has no probative value. It is inconceivable that any consumer would or could confuse the MURRAY'S THIRST-AID can with the GATORADE bottle given their dissimilar appearance, especially when the dominant name on the can is "MURRAY'S". That the majority of consumers surveyed thought that MURRAY'S manufactured the product speaks only to their ability to read.[10]

Furthermore, Wind's trade study lacks any probative value of likelihood of confusion among the purchasing public. The results of the trade survey are unpersuasive since the respondents, in addition to being able to read MURRAY'S on the label, are more likely to be familiar with that produce since they are members of the institutional purchasing public to which MURRAY'S

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[10] It is interesting to note, however, that despite the bold label, a few respondents stated that they thought a paint company produced the product because it "looked like a paint can."

THIRST AID is sold. Yet the issue in this case involves the state of mind of consumers and not members of the trade community. The survey thus demonstrates the absence of confusion among the wrong universe. See, *Astatic Corp. v. American Electronics, Inc.*, 201 U.S.P.Q. 411, 421 (N.D. Ohio 1978)(survey of trade members only held not probative on issues of secondary meaning and likelihood of confusion since universe surveyed inappropriate); see also, *American Luggage Works v. United States Trunk Co.*, 158 F. Supp. 50, 52 (D. Mass. 1957), *aff'd sub. nom, Hawley Products, Co. v. United States Trunk Co.*, 259 F.2d 69 (1st Cir. 1958)(survey limited only to trade members held not probative on issue of secondary meaning).

The Weilbacher slogan study, however, does show the likelihood of reverse confusion. The success of defendant's advertising campaign is illustrated by the survey results which showed that the vast majority of respondents identified GATORADE with the mark THIRST-AID. Given the pervasive influence defendant's campaign has had on the consuming public as reflected in the substantial percentage of consumers who associated Gatorade and Thirst Aid, the likelihood that consumers will confuse plaintiff's mark with defendant's use of Thirst Aid is present.

INTENT OF THE ALLEGED INFRINGER

A finding of fraudulent intent or bad faith is not essential to prove infringement where likelihood of confusion already exists. *Henri's Food Products Co., Inc. v. Kraft, Inc.*, 717 F.2d 352, 359 (7th Cir. 1983); *Tisch Hotels, Inc. v. Americana Inn, Inc.*, 350 F.2d 609, 613 (7th

Cir. 1985). Nor does such evidence create a presumption of consumer confusion. See, *Schwinn Bicylcle Co. v. Ross Bicycles, Inc.*, 870 F.2d 1176, 1184 (7th Cir. 1989). A sufficient finding of bad faith intent on the part of the alleged infringer is merely another factor that supports a finding of likelihood of confusion. *Ziebart International Corp. v. After Market Associates*, 802 F.2d 220, 227 (7th Cir. 1986); *Munters Corp. v. Matsui America, Inc.*, 730 F. Supp. 790, 799 (N.D. Ill. 1989).

"Proof that defendant knew of plaintiff's mark at the time defendant chose its mark has often been relied upon as evidence of bad faith and an intention to trade upon another's good will. A wrongful intent appears easy to infer where defendant knew of plaintiff's mark, had freedom to choose any mark, and 'just happened' to choose a mark confusingly similar to plaintiff's mark." 2 J. McCarthy, supra, § 23:33, at 147; see *WSM, Inc. v. Tenneessee Sales Co.*, 709 F.2d 1084, 1087 (7th Cir. 1983). However, mere knowledge on the part of the defendant of the plaintiff's mark and the defendant's refusal to relinquish its mark upon demand are not necessarily indicative of bad faith. Those actions may be explained by a good faith judgment on the part of the defendant that its use does not infringe the plaintiff's mark. *Munters Corp.*, 730 F. Supp. at 799, *Source Services Corp. v. Source Telecomputing*, 635 F. Supp. 600, 614 (N.D. Ill 1986).

It is undisputed that defendant knew of plaintiff's trademark registrations before it launched its advertising campaign. Defendant argues, however, that it intended to use the words "thirst aid" descriptively to communicate the thirst quenching and replenishment benefits of its

GATORADE beverage.[11] Defendant further claims that its investigation into the non-use by Pet and Karp of THIRST-AID negates any inference of bad faith.

There was no evidence that defendant intended to trade on plaintiff's good will or reputation. Yet it is difficult to avoid a finding of bad faith when the overwhelming evidence shows that defendant knew of plaintiff's rights in the THIRST AID mark and yet proceeded to air its advertising campaign in the face of that knowledge. Furthermore, the facts reveal a substantial degree of indifference by defendant to perform any investigation or take reasonable precautions to avoid the likelihood of confusion.

It was defendant's policy to have the legal department approve all advertising prior to its appearing in any medium. R. 1620. Although the legal department reviewed the Thirst Aid campaign in February or March of 1984 around the time the commercial was being produced, that review did not include a discussion of trademark matters because defendant's attorneys thought that the theme did not implicate a trademark problem. R. 1522. That determination was made without the benefit of a trademark search.

The evidence shows, contrary to defendant's assertions, that neither defendant nor its attorney investigated the use or non-use of the THIRST-AID mark prior to airing defendant's Thirst Aid commercial in mid-

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[11] We have held, on May 29, 1985, that THIRST-AID was not descriptive of Gatorade and therefore did not constitute fair use. See Mem. Op. 5/29/85.

May. Defendant knew of Pet's test market of the Thirst-Aid beverage well in advance of its airing the Thirst Aid commercial. This knowledge however, was not obtained through any investigation initiated by defendant. Charles Lannin, defendant's in-house trademark attorney, testified that he received a call from a member of the defendant's research and development facility in Barrington who stated that he thought he recalled a product name Thirst Aid in 1980 or 1981. R. 935. In early March, 1984, Lannin directed one of defendant's employees to call the consumer affairs department at Pet, who learned from someone there that no product was made, being made or had been made for over four years. *Id.*

Despite defendant's knowledge of the Pet test, defendant failed to take any precautions prior to producing the Thirst Aid commercial to ensure that it was not treading on another's rights. The Thirst Aid campaign first publicly aired on May 12, 1984, R. 922. However, final approval to run the ad was not given until May 11, 1984. R. 925. Two alternate campaigns using the descriptors "Thirstslayer" and "Recharge" had been produced and could have aired, even if only temporarily while defendant consulted with plaintiff. R. 924. Gatorade's brand manager, Mark Shapiro, testified that prior to the meetings of May 11, 1984 at which final approval was given to run the Thirst-Aid commercial, there was no discussion regarding the availability of Thirst-Aid or the legality of its use nor was legal counsel even present at these meetings. R. 926-27.

Although defendant knew of Pet's use of ThirstAid in early 1984 it did not conduct a trademark search until May 2, 1984, after learning of a product using the name "Thirst Aid" which had been introduced in the Tampa,

Florida market. PX C-F. The trademark search was ordered less than a week before the Thirst Aid commercial was to air. Defendant learned that the registrations were owned by Karp. On May 11, 1984, Lannin instructed a paralegal to call Karp and inquire whether Karp was manufacturing or selling any products known as THIRST-AID. Without identifying herself, she spoke to a receptionist and asked where she "could purchase the goods that they marketed under the THIRST-AID name." The receptionist could not tell her. R. 936, 942. The paralegal testified that she was specifically attempting to find out whether Karp was marketing syrups under the THIRST-AID name. R. 944. No attempt was made to contact plaintiff although plaintiff's name was referenced on the trademark report.

On May 31, 1984, Lannin received a phone call from Russell Hattis of Karp informing him that Karp owned three trademark registrations and that defendant's advertising might be infringing on their rights. R. 928. Lannin responded that defendant's use of Thirst aid did not infringe since it was being used descriptively to convey the thirst quenching ability of Gatorade. Lannin asked Hattis whether Karp had used the mark on soft drinks or beverages and Hattis responded that it had not. *Id.* Lannin and Hattis met the next day, June 1, at which time Hattis informed Lannin that there had been a license arrangement between Pet and Karp, which had concluded in 1981, but that there had been no use of the mark on soft drinks or beverages since that time. R. 929. On June 4, Sands contacted Lannin and told him that his company owned the rights to THIRST-AID as a result of a license-back agreement with Karp. R. 930. Lannin requested a copy of the agreement. On June 6, Lannin met with Hattis again who then claimed to represent both Karp and

plaintiff and repeated that the registrations had been used in conjunction with a test market for an isotonic beverage. R. 931.

The totality of the evidence reveals a lack of good faith by defendant in its use of plaintiff's mark. Additionally, there is substantial evidence that defendant shirked its duty to avoid the possibility of confusion. See, *Wesley-Jessen Div. Etc. v. Bausch & Lomb, Inc.*, 698 F.2d 862, 867 (7th Cir. 1983). Defendant knew of plaintiff's mark and had a duty to take reasonable precautions to avoid the likelihood of confusion. *Tisch Hotels, Inc. v. Americana Inn, Inc.*, 350 F.2d 609, 613 (7th Cir. 1965). No precautions were taken.

Defendant never sought the opinion of counsel as to the trademark issues until June 2, when it contacted its outside counsel, Robert Newbury, regarding plaintiff's infringement claim. There is no evidence that defendant ever sought a formal legal opinion regarding the possibility of trademark infringement prior to either producing or airing the Thirst Aid commercial. The issue was not seriously considered until defendant was faced with the prospect of a lawsuit. Such lack of concern clearly negates a finding a good faith. *See Cuisinarts, Inc. v. Robot Coupe International Corp.*, 580 F. Supp. 634 (S.D.N.Y. 1984)(although infringement found, no bad faith where defendant timely requested and honestly relied upon advice of counsel in preparing advertising).

Defendant's failure to conduct a basic trademark search until days before the airing of the Thirst Aid commercial when it knew of a prior use by another major marketer is inexcusable. Nor can defendant rely on its directions to low level employees to make anonymous,

cursory investigations of the record owner's "nonuse" of Thirst Aid as evidence of a good faith effort to discover a potential infringement problem, especially when defendant never contacted the plaintiff.

Defendant had a duty to ensure, through a proper and timely trademark search that its campaign would not imitate an existing registered mark. As a highly sophisticated national marketer, defendant had access to every imaginable resource to avoid the slightest possibility of confusion. That defendant, with knowledge that plaintiff owned the THIRST AID mark, failed to utilize even this most basic resource indicates a complete indifference to plaintiff's federal trademark rights. Defendant's actions, collectively considered, suggest calloused indifference which is a factor favoring relief. *American Association for the Advancement of Science v. The Hearst Corp.*, 498 F. Supp. 244, 261 (Fed. Cir. 1980); *Chips 'n Twigs, Inc. v. Chip-Chip, Ltd.*, 414 F. Supp. 1003, 1015 (E.D. Pa. 1976).

Based on the foregoing analysis, we conclude that defendant has infringed plaintiff's registered trademark THIRST-AID. Accordingly, we turn to the matter of relief.

DAMAGES

In addition to injunctive relief, which is proper in this case, plaintiff asserts four separate claims for damages: 1) an accounting for profits, 2) actual damages, 3) corrective advertising, and 4) a reasonable royalty. Plaintiff also seeks attorney's fees, prejudgment interest and costs.

The Lanham Act allows for recovery of "1) defendant's profits, 2) any damages sustained by the plaintiff, and 3) costs of the action." 15 U.S.C. § 1117. Thus, the statute enables the court to award both profits and damages. The Act requires that, in assessing profits, the plaintiff need prove only defendant's sales. In assessing damages, the court may impose an amount above actual damages, up to three times such amount, so long as the total amount constitutes compensation and not a penalty. Further, the Act allows an award of reasonable attorney fees. 15 U.S.C. § 1117.

PROFITS

The Lanham Act specifically provides for an award of profits in the discretion of the judge subject only to the principles of equity. "The trial court's primary function is to make violation of the Lanham Act unprofitable to the infringing party." *Roulo v. Russ Berrie & Co., Inc.*, 886 F.2d 931, 941 (7th Cir.), *cert denied*, 110 S.Ct. 1124 (1989)(quoting, *Otis, Clapp & Son, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 744 (7th Cir. 1985)).

Defendant argues that monetary relief is inappropriate given that plaintiff has no product from which sales could be diverted. It is clear that diversion of sales is not a prerequisite to an award of an accounting. *Maltina Corp. v. Cawy Bottling Co.*, 613 F.2d 582, 584 (5th Cir. 1980). In cases where the parties' products are not in direct competition, an accounting is proper in order to deter future infringing conduct and to prevent defendant's unjust enrichment. The dollar amount of recovery for profits under this theory has no relation to the damages sustained by the plaintiff. *Maier Brewing Co. v. Fleischmann*

Distilling Corp., 390 F.2d 117,, 123-124 (9th Cir.), *cert. denied*, 391 U.S. 966 (1968). Monetary awards are warranted in order to prevent defendant from being unjustly enriched and to deter any future infringing conduct. *Roulo*, 886 F.2d at 941; *W.E. Bassett Co. v. Revlon, Inc.*, 436 F.2d 656 (2d Cir. 1970); *Monsanto Chemical Co. v. Perfect Fit Products Manufacturing Co.*, 349 F.2d 389, 397 (2d Cir. 1965).

The equities of this case favor a monetary award since injunctive relief would be inadequate given our finding that defendant acted in bad faith. Defendant was not an innocent infringer who acted in good faith nor was defendant's conduct merely negligent or reckless. The evidence showed the defendant sought to exploit the THIRST AID mark after it knew of plaintiff's trademark registration. Therefore, an accounting of profits is proper.

However, an accounting may have the capacity to overcompensate a plaintiff. Defendant's profits may be significantly disproportionate to plaintiff's circumstances, such that an award of profits may represent punishment to the defendant (as opposed to compensation for the plaintiff), and unjustifiable enrichment and a windfall to the plaintiff. *Stuart v. Collins*, 489 F. Supp. 827, 833 (S.D.N.Y. 1980). Therefore, the amount of profits to be awarded should be related to the financial benefit received because of the unlawful use of the mark. *U-Haul International, Inc. v. Jartran, Inc.*, 793 F.2d 1034, 1042 (9th Cir. 1986); cf. *Otis Clapp & Son*, 754 F.2d at 744-45 (affirming award of profits even though plaintiff's overall operations were unprofitable).

The defendant presented the testimony of Dr. William Lynk, an expert in the economics of advertising in the

beverage industry, to refute the connection between defendant's profits and the Thirst Aid campaign. Lynk performed a study to determine the effect of the Thirst Aid campaign on Gatorade sales. R. 1789.

He compared the product's pre-1984 non-Thirst Aid advertising to the post-1984 period of Thirst Aid advertising. Lynk concluded that the Thirst-Aid advertising did not have a significantly greater effect on sales than the non Thirst Aid advertising and thus there was no causal relationship between the Thirst Aid campaign and Gatorade's success. He found that there were a number of non-advertising factors which contributed to Gatorade's sales such as seasonality, price, and the volume of advertising, irrespective of the particular theme. R. 1790, 1800. He also testified that there was a statistically significant increase in sales after defendant's acquisition of Gatorade separate from any influence of price, seasonality or advertising. R. 1806. He attributed this increase in sales to the introduction of new flavors both immediately before and after defendant's acquisition, the extension of packaging, the broadening of Gatorade's geographic distribution into the non-sunbelt areas after defendant's acquisition of the product, and the increase in Gatorade's overall advertising support. From 1984-1986, Gatorade's network and local television advertising substantially increased as did non-advertising promotional expenses such as coupons, free standing inserts, and improved shelf space allocations, giving the brand greater national exposure. R. 1810-1817. However, Lynx could not assign percentages to those factors which contributed to sales. R. 1822.

We find Dr. Lynk's testimony of little value in estimating the financial benefit defendant gained from the

Thirst Aid campaign. While admittedly the Thirst Aid campaign is not the sole cause of Gatorade's success, the defendant's substantial and continuous commitment to the campaign suggests that the Thirst Aid message is a valuable component in Gatorade's overall marketing effort. While it is impossible to measure the precise impact of advertising on sales and profits, we note that Gatorade's sales and profits have risen substantially since 1984 with equally healthy increases in advertising spending.

Defendant has spent over $112 million dollars on Gatorade advertising over the past six years and an additional $253 million dollars on consumer and trade promotion. DX P-G. During this same period of time its net sales of Gatorade have been $1.784 billion dollars upon which it realized a profit of 247.3 million dollars. Defendant introduced its THIRST AID campaign in 1984 and it continues to be broadcast today. It is inconceivable that its investment in the campaign has had no appreciable effect on sales and in turn, profits. See, *U-Haul International, Inc.*, 793 F.2d at 1042 (award of profits justified where evidence showed connection between defendant's revenue growth and advertising).

We recognize that in some cases a plaintiff may be awarded all of defendants profits where there is knowing infringement of plaintiff's mark. See, *Stuart v. Collins*, 489 F. Supp. 827, 831 (S.D.N.Y. 1980); *W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970). However, such an award in this case would give plaintiff a windfall.

Many factors have contributed to Gatorade's success. But, it is reasonable to infer that defendant's aggressive THIRST-AID advertising campaign was responsible for

10% of the product's success and hence profits. Defendant's profits on Gatorade sales, were 247.3 million dollars. DX P-G. Accordingly, we award plaintiff $24,730,000 (10% of defendant's before tax profits) for defendant's willful infringement of plaintiff's mark and to prevent defendant's unjust enrichment from its use.

ACTUAL DAMAGES

In order to recover damages (separate from defendants' profits), the plaintiff must show that it suffered actual damages. *Maltina v. Cawy Bottling Co.*, 613 F.2d at 587; *Playboy Enterprises v. P.K. Soren Export Co.*, 546 F. Supp. 987, 998 (S.D. Fla. 1982). Recovery for damages may serve as compensation for diverted sales or damage to reputation, or other harm stemming from unfair competition. *Vuitton Et Fils, S.A. v. Crown Handbags*, 492 F. Supp. 1071, 1077 (S.D.N.Y. 1979).

Plaintiff has not presented any evidence of lost sales or profits. Nevertheless, plaintiff contends that it has suffered actual damage as a result of defendant's Thirst Aid campaign in that it has destroyed plaintiff's ability to use the mark again in the future. As evidence of actual damage, plaintiff offered the licensing proposals presented to Tropicana and Pepsico, both of which were rejected.

When defendant introduced its "Gatorade is Thirst Aid" campaign, plaintiff had an outstanding proposal to Tropicana to market an isotonic beverage under the licensed name "THIRST AID". PX W, X. Tropicana indicated that it would be interested in using the mark but expressed concern that "protection of trademark may be difficult" in light of Gatorade's Thirst Aid campaign. PX

B-L. In 1985, Frank Sands sent a licensing proposal to Pepsico which was rejected "[i]n light of Gatorade's current advertising . . . " and the instant lawsuit. PX G-L.

We reject both proposals as evidence of plaintiff's actual damage. As noted earlier in this opinion, the Tropicana proposal was initiated by Forbes on behalf of Karp. Pursuant to the Karp-Sands licensing arrangement, Karp did not have the authority to use the mark at retail. Both proposals represent conjectural lost business opportunities which may or may not have proceeded but for defendant's advertising. We fail to see how these lost opportunities constitute actual harm justifying a damage award separate from defendants' profits.

CORRECTIVE ADVERTISING

Plaintiff also seeks an award of a dollar-for-dollar corrective advertising and promotion expenses for the reverse confusion caused by defendant's advertising. Plaintiff contends that it will take as much advertising and promotion to disentangle Thirst Aid from Gatorade in the consumer's mind

Corrective advertising refers to damage awards based either on the actual amount spent by the defendant on advertising or on the amount a court speculates a plaintiff would have to spend to "counteract" a defendant's advertising. Heald, "Money Damages and Corrective Advertising: An Economic Analysis", 55 Univ. of Chicago L. Rev. 629, 630, n.7 (1988). Courts have awarded corrective advertising in two ways: 1) by awarding damages in an amount equal to the amount actually spent by the plaintiff to counteract the defendant's advertising,

see *Otis Clapp & Sons, Inc. v. Filmore Vitaman Co.*, 754 F.2d 738 (7th Cir. 1985); *Cuisinarts, Inc. v. Robot-Coup International Corp.*, 580 F. Supp. 634 (S.D.N.Y. 1984), and 2) by awarding damages based on the advertising expenditures of the defendant, not the actual cost of counter advertising actually done by the plaintiff, see *U-Haul International, Inc. v. Jartran, Inc.*, 793 F.2d 1034 (9th Cir. 1986); *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365 (10th Cir. 1976); *Zazu Designs v. L'Oreal S.A.*, 9 U.S.P.Q.2d 1972 (N.D.Ill. 1988).

An award under the first method is clearly improper in this case as plaintiff has not engaged in any corrective advertising for which it could be reimbursed. But an award based on advertising expenditures, either on a dollar for dollar basis or as percentage of defendant's total advertising expenditures is also inappropriate. Corrective advertising awards emphasize the need to restore plaintiff's reputation to its former level via an actual reparative advertising campaign. Heald, supra, at 639. The seminal case in this area and the case upon which plaintiff principally relies is *Big O Tire Dealers v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365 (10th Cir. 1977). In *Big O*, the court awarded corrective advertising expenditures to the plaintiff in order to restore the plaintiff to the position that it was in prior to defendant's launch of its infringing advertising campaign. *Big O* is distinguishable in that the plaintiffs had used their marks on goods or serves both prior to or concurrent with the defendant's infringing use. Here, the plaintiff had not made concurrent use of the Thirst Aid mark. While we have held that there is a likelihood of confusion for which plaintiff should be compensated, this case does not present the situation in which plaintiff will need to counteract defendant's advertising to make use of its mark. There is

no evidence that plaintiff's reputation has been harmed by defendant's use of the mark to warrant a corrective advertising award.

REASONABLE ROYALTY

An award of a reasonable royalty is similarly inappropriate. Plaintiff contends that a separate award of a reasonable royalty should be imposed "as if defendant had approached plaintiff in May 1984 after its trademark search uncovered plaintiff's registration . . . and had engaged in a hypothetical negotiation of a willing licensor-willing license with neither under compulsion to license." Pl Trial Brief, p. 74. In other words, plaintiff contends that defendant should be made an involuntary licensee for all prior sales.

Plaintiff relies on the Fifth Circuit's decisions in *Boston Professional Hockey Association v. Dallas Cap & Emblem Manufacturing, Inc.*, 597 F.2d 71 (5th Cir. 1979) and *Holiday Inns, Inc. v. Airport Holiday Corp.*, 493 F. Supp. 1025 (N.D. Tex. 1980), aff'd on other grounds, 683 F.2d 931 (5th Cir. 1982). In *Boston Professional Hockey Association*, the defendant was seeking to be the sole authorized manufacturer of National Hockey League emblems. Defendant sent plaintiff a letter in which he offered $25,000 for a three year exclusive license, but only $15,000 for a three year nonexclusive license. The offers were rejected and an infringement action ensued. The district court calculated damages based on the proposal letter from defendant, stating that the defendant had appropriated what it had been unable to obtain by bargaining and awarded plaintiff $25,000 as damages. The Fifth Circuit reduced the damages award to $15,000,

however, on the grounds that defendant could never have been an exclusive licensee because plaintiff had prior licensees manufacturing emblems.

Similarly, in *Holiday Inns*, the defendant was a licensee of plaintiff who continued to use the mark after the license agreement expired. The court recognized the rule in *Boston Professional Hockey Association*, that royalties normally received for the use of a mark are the proper measure of damages for misuse of those marks. 493 F. Supp. at 1028. The court awarded plaintiff a reasonable royalty based upon the royalty fee set forth in the parties' licensing agreement, adjusted to reflect the current market rate.

The awards in both *Boston Professional Hockety Association* and *Holiday Inns* were based on the parties' previous negotiations or proposals. Thus, there was actual data upon which the court could justify a fair award. The parties in this case never considered a licensing agreement. Thus, any measure of damages based upon a royalty would force the court to engage in a hypothetical inquiry into what would have been a reasonable royalty for defendant to pay plaintiff had the parties contemplated a royalty arrangement.[12] Damages predicated on a speculative royalty rate are clearly inappropriate.

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[12] Plaintiff presented the testimony of Ralph Chapek, a marketing consultant experienced in establishing licensing arrangements between food companies, to assist the court in assessing what a reasonable royalty schedule between plaintiff and defendant would entail. We dismiss his testimony as unpersuasive since it is purely hypothetical. Moreover, his estimates are not based on royalty rates used in an advertising context.

ATTORNEYS' FEES

Attorney's fees are recoverable in this case under § 1117(a) because this is an "exceptional case." An exceptional case has been described as one in which the infringement was malicious, fraudulent, willful, or deliberate. *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 746 (7th Cir. 1985); *Bittner v. Sadoff & Rudoy Industries*, 728 F.2d 820, 828 (7th Cir. 1984). A showing of bad faith can render cases "exceptional" justifying an award of attorney fees. *Quaker State Oil Corp. v. Kooltone Inc.*, 649 F.2d 94, 95 (2d Cir. 1981). Because we have found that defendant acted in bad faith, an award of attorneys' fees is appropriate.

PREJUDGMENT INTEREST AND COSTS

Although the Lanham Act is silent with respect to prejudgment interest, this Circuit has announced the rule that "prejudgment interest should be presumptively available to victims of federal law violation. Without it, compensation of the plaintiff is incomplete and the defendant has an incentive to delay." *Gorenstein Enterprises v. Quality Care-USA*, 874 F.2d 431, 436 (7th Cir. 1989). This Circuit has also held that prejudgment interest is particularly appropriate where the violation was intentional. *Id.* Therefore, we award prejudgment interest calculated at the prime rate. *Id.* The calculations shall be based on a prorated award of profits commencing with defendant's first act of infringement on May 12, 1984. Costs shall also be awarded under the Lanham Act. 15 U.S.C. § 1117.

In summary,

(1) plaintiff is awarded $24,730,000 as 10% of defendant's Gatorade profits;

(2) plaintiff is awarded prejudgment interest on a prorated basis commencing May 12, 1984;

(3) an injunction shall issue permanently enjoining defendant from using plaintiff's trade mark THIRST-AID;

(4) plaintiff shall recover its attorneys' fees and costs.

Plaintiff shall submit its computation of prejudgment interest, its application for attorneys' fees and costs and a proposed injunction order within 21 days; defendant shall respond 14 days thereafter; plaintiff shall reply 7 days thereafter. The matter is set for hearing on February 6, 1991 at 10:00 a.m. before Judge Marshall by long distance telephone in his chambers.

The entry of judgment is deferred until the foregoing matters are submitted and ruled upon.

ENTER:

_____

Prentice H. Marshall
Senior District Judge

DATED: December 18, 1990

APPENDIX F
No. 84 C 8075

IN THE

UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

SANDS, TAYLOR & WOOD CO.,

Plaintiff,

v.

THE QUAKER OATS COMPANY,

Defendant.

MEMORANDUM OPINION

Prentice H. Marshall, District Judge

Plaintiff Sands, Taylor & Wood Co. sues defendant The Quaker Oats Company for infringement of plaintiff's trademark THIRST-AID. Defendants have used the term "THIRST AID" in a marketing campaign for its isotonic beverage Gatorade. Plaintiff and defendant have filed cross motions for summary judgment.

Plaintiff and its predecessors in title have used THIRST-AID continuously since 1921. In 1950, THIRST-AID was first registered as a trademark for use on "maltless beverages sold as soft drinks and syrups therefor." Plaintiff's predecessors also registered THIRST-AID for use with sundae toppings, ice cream marshmallows, and hot chocolate powder. The THIRST-AID registrations were all renewed in the early 1970's. In 1980 plaintiff licensed Pet Inc. to use the THIRST-AID mark for an isotonic beverage. In 1984, defendant launched an advertising campaign for Gatorade which prominently featured the expression "THIRST AID," without a hyphen. Plaintiff then filed this action alleging that defendant's use of the term "THIRST-AID" infringed plaintiff's trademark. The pivotal issue in the cross motions for summary judgment is whether defendant's use of the term "THIRST-AID" constitutes a fair use of the words and is not, therefore, infringing.

Because plaintiff has used THIRST-AID continuously for over five years, the mark is now incontestable under 15 U.S.C. § 1065 (1982). As an uncontestable mark, it is subject to only seven defenses, among which is the fair use defense. *Id.* § 1115(b)(4). To establish the fair use defense, the defendant must show:

> That the use of the name, term, or device charged to be an infringement is a use, otherwise than as a trade or service mark, of the party's individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is descriptive of and used fairly and in good faith only to describe to users the goods

> or services of such party, or their geographic origin.

Id. Underlying the fair use defense is the policy that no one should be able to appropriate descriptive language from the English vocabulary through trademark registration. *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 528 (1924). Prerequisite to the fair use defense are three elements: 1) the defendant's use of the term must not be as a trademark; 2) the term must describe the product; and 3) the defendant must use the term fairly and in good faith. *Soweco, Inc. v. Shell Oil Co.*, 617 F.2d 1178, 1186-87 (5th Cir. 1970). Defendant argues that no genuine issue of material fact exists with respect to any of the three conditions.

The consideration of the fair use defense begins with defendant's use of the term. Quaker has used the term "THIRST-AID" on Gatorade labels, magazine advertisements, and television commercials.

A one quart Gatorade label is approximately 12 inches by 3 inches. The background of the label is either green for the lemon-lime flavor, red for the fruit punch flavor, or orange for the orange flavor. At the center of the label is the Gatorade trademark, approximately 4 1/2 inches by 3 inches. To the left of the Gatorade trademark is a white box approximately 3 inches square. At the top and inside of the box is the word GATORADE in large letters. In smaller capitals, underneath the word GATORADE, is written "FOR THAT DEEP DOWN BODY THIRST." Below, in upper and lower case letters the following message appears

> When you exercise you lose more than water. You lose potassium, fluids, and minerals. Unlike water, soft drinks, or fruit juice, Gatorade Thirst Quencher is scientifically formulated to help replace what your body loses fast! Gatorade is no ordinary thirst quencher. It's THIRST-AID!

The parties have submitted three magazine advertisements for our consideration. The first advertises Gatorade packaged in a box. The background of the ad pictures two women working out. In the foreground is a sweating woman sipping Gatorade from a box. At the top of the ad appears a message in capital letters, which says, "NEW, GATOR BOX!" Below in slightly smaller letters of upper and lower case, the ad says, "Ahhh! Thirst Aid, on the spot." In smaller letter is the following message:

> Introducing Gatorade Thirst Quencher's take-along Gator Box. Just pop it in with your gear -- pop it open for on-the-spot Thirst Aid! Gatorade is scientifically formulated to help replace those vital body fluids and minerals you lost when you play hard.

In this ad, the words "Thirst Aid" at the top of the page are far larger than "Gatorade" in the ad.

Another magazine advertisement shows a photograph of the head and torso of a sweating man with the words "THIS IS NO ORDINARY THIRST." Below the photograph, "THIS IS NO ORDINARY THIRST QUENCHER" is printed on a diagonal. Under that

message, in upper and lower case smaller print, the ad describe how Gatorade replenishes fluids and minerals the body loses during exercise. At the end of the paragraph is "It's Thirst Aid." Under that message the ad reads in much larger capital letters:

GATORADE IS
THIRST AID
FOR THAT DEEP DOWN
BODY THIRST.

The words "THIRST-AID" are about twice the size of the other words. The other words are printed in black ink, THIRST-AID appears in red ink, outlined in black ink. The writing is super-imposed over photographs of three bottles of Gatorade -- one in each flavor. The word Gatorade on the labels of the photographed bottles is slightly smaller than the words "THIRST-AID" in red print.

The final magazine ad the parties have provided to us shows three boxes of Gatorade protruding from a green Gatorade gym bag. On the left of the ad, the Gatorade trademark is superimposed. At the top of the ad, in green letters are the words, "Now Gatorade in the New Gator Box!" In much smaller black letters, appears the explanation of what the body does after exercise and how Gatorade restores the body. The explanation concludes with the words, "It's no ordinary thirst quencher, it's Thirst Aid!"

The television commercial begins with a basketball player sinking a layup. An announcer comments, "The final basket." The picture shifts to a tennis player as the announcer says, "Match point." Then a runner is shown

and the announcer says, "The last lap." Two perspiring people are then shown, and the announcer says, "Right now your body's thirsty for more than water." A bottle of Gatorade then appears as the announcer says, "It needs thirst aid. Gatorade." The picture then closes in on the Gatorade label of the bottle to a drum beat. A voice sings, "Gatorade is Thirst Aid." As the words "Thirst Aid" are sung, they flash across the screen over the Gatorade bottle. The words take up most of the screen. The picture returns to people engaged in different kinds of exercise as the announcer describes thirst. An outline of a person's body is shown, and as the person drinks Gatorade, the body is filled with Green. Once again, the singer sings the jingle, "Gatorade is Thirst Aid", and the words "Thirst Aid" are superimposed over the Gatorade bottle. Finally, a person drinking Gatorade is shown, and the announcer comments, "Aaahhh, for that deep down body thirst."

From the foregoing it is evident that defendant's use of Thirst Aid varies. In some ads, the words Thirst Aid are much smaller than the Gatorade trademark. In others, Thirst Aid is approximately equivalent in size and use. In some ads the words Thirst Aid predominate over the Gatorade trademark and are the most noticeable feature of the ad.

To determine whether the fair use defense applies, we must decide whether Quaker used Thirst Aid merely as a description and not as a trademark and whether Quaker's use was in good faith. If Thirst Aid is a descriptive term, then defendant may use the term to describe Gatorade even though the Thirst-Aid mark is incontestable. If the mark is suggestive, then defendant's use of the term could

not be merely descriptive and would infringe upon the trademark.

The difference between suggestive and descriptive has been described as follows: "[I]f the mark imparts information directly it is descriptive. If it stands for an idea which requires some operation of the imagination to connect it with the goods, it is suggestive." *Union Carbide Corp. v. Ever-Ready Inc.*, 531 F.2d 366, 379 (7th Cir. 1976)(quoting A. Serde, S. Dalroff, E. Gonda, Trademark Law and Practice § 4.06 at 77 (1963)). Examples of words and phrases found to be descriptive rather than suggestive include "READER" to describe a newspaper *Chicago Reader, Inc. v. Metro College Publishing Co.*, 711 f.2d 801 (7th Cir. 1983); "AUTOPAGE" to describe an answering machine with a paging terminal, *Gimix, Inc. v. JS & A Group, Inc.*, 699 F.2d 901 (7th Cir. 1983); "Multistate Bar Examination" to describe multiple choice section of bar exam, *National Conference of Bar Examiners v. Multistate Legal Studies*, 692 F.2d 478, 488 (7th Cir. 1982), *cert. denied*, 104 S.Ct. 69 (1983); "Vision Center" to describe eyeglass clinic, *Vision Center v. Opticks, Inc.*, 596 2d 111 (5th Cir. 1979), *cert. denied*, 444 U.S. 1016 (1980); "telemed" to describe computer analysis of electro cardiograms, *Telemed Corp. v. Tel-Med, Inc.*, 588 F.2d 213, 219 (7th Cir. 1978); "aid shuttle" to describe local airline service, *Eastern Airlines, Inc. v. New York Air Line, Inc.*, 559 F. Supp. 1270 (S.D.N.Y. 1983); "NEXT DAY OR FREE" to describe film developing, *Linn Camera Shop Inc. v. Meijer, Inc.*, 559 F. Supp. 190 (S.D.N.Y. 1981); "check clutch" to describe wallet that held checks, *Robert B. Vance & Associates, Inc. v. Baronet Corp.*, 487 F. Supp. 790 (N.D. Ga. 1979); "ribbed" to describe condom, *Schmid Laboratories v. Youngs Drug Products*, 482 F. Supp. 14 (D.N.J. 1979); "Hot Tray" to describe food warmer, *Salton*

Inc. v. Cornwall Corp., 477 F. Supp. 975 (D.N.J. 1979); and "car freshner" (sic) to describe car air freshner, *Car Freshner Corp. v. Auto Aid Manufacturing Corp.*, 461 F. Supp. 1055 (N.D.N.Y. 1978). Among the words or phrases found to be suggestive are "Slickcraft" for a boat, *AMF Inc. v. Sleekcraft Boats*, 590 F.2d 341 (9th Cir. 1979); "METALOCK" for casting repair process, *Engineered Mechanical Services, Inc. v. Applied Mechanical Technology, Inc.*, 584 F. Supp. 1149 (M.D. La. 1984); "ULTRASUEDE" for a fabric, *Spring Mills, Inc. v. Ultracashmere House, Ltd.*, 532 F. Supp. 1203 (S.D.N.Y.), *rev'd on other grounds*, 689 F.2d 1127 (2d Cir. 1982); "Scramble" for video game *Stern Electronics, Inc. v. Kaufman*, 523 F. Supp. 635 (E.D.N.Y. 1981); "brainy blocks" for toy, *Or Da Industries v. Leisure Learning Products*, 479 F. Supp. 710 (S.D.N.Y. 1979); and "Yozurt" for frozen yogurt, *DCA Food Industries, Inc. v. Hawthorn Melody, Inc.*, 470 F. Supp. 574 (S.D.N.Y. 1979). The preceding cases involved the distinction between descriptive and suggestive for purposes of determining whether the plaintiffs' marks were protectable as trademarks. Here, plaintiff's mark "Thirst-Aid" is uncontestable, but defendant may make a fair use of the mark. The issue of whether the use is descriptive is the same for the fair use defense as it is for determining whether a mark is protectable. *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 796 (5th Cir. 1983).

Whether Thirst Aid is descriptive is a close issue in this case. Defendant argues that the term describes how Gatorade aids the thirst of its users. Plaintiff argues that the term Thirst aid does not cause an immediate mental reference to a beverage. Although a soft drink may quench thirst, various other products -- for example, popsicles, ice cream, beer, swimming pools, fresh fruit,

iced tea, ice cubes - may also aid thirst. Because Thirst Aid rather than Thirst Ade is involved, some imagination is required before the thought of a soft drink materializes. Thirst Aid does not convey information about Gatorade directly, but indirectly.

Defendant argues that Thirst Aid is merely a combination of two dictionary words. Although both thirst and aid are dictionary words, the combination, Thirst Aid is not. Combining two words to create a phrase not found in the dictionary does not preclude a phrase from being found in the dictionary does not preclude a phrase from being found descriptive. *Telemed Corp.*, 588 F.2d at 219. "[I]f the components of a tradename are common descriptive terms, a combination of such terms retains that quality." *National Conference of Bar Examiners*, 692 F.2d at 488. On the other hand "dissecting marks often leads to error." *Union Carbide*, 531 F.2d at 380. Thirst aid is more than a combination of two words. Not only does it convey an aid for thirst, but first aid for thirst and an ade to quench thirst. Thirst Aid is a double play on words, for it causes a mental reference to both first aid and lemonade. "Thirst," of course rhymes with "first" of "First Aid." "Aid" is a homonym of "ade." That a word is misspelled or is a phonetic equivalent to a descriptive or generic word does not change it from being generic or descriptive to being suggestive. *Miller Brewing Co. v. G. Heileman Brewing Co.*, 561 F.2d 75, 79 (7th Cir. 1977), *cert. denied*, 434 U.S. 1025 (1978) (holding "Lite" generic term for beer). In this case, however, neither thirst nor aid is misspelled. Rather, aid is a separate word with a different meaning. Ade refers to a beverage; aid means assistance. Defendant admitted in its answer that it selected Thirst Aid as a "play on the words 'first aid.'" Answer at 13.

Defendants refer us to various cases applying the fair use defense to defeat a claim of infringement. Because the cases cited involved either descriptive or commonly used terms, none of these cases control the instant case. In *Soweco, Inc. v. Shell Oil Co.*, 617 F.2d 1178 (5th Cir. 1980), the defendant's use of the word "larvicide" in "SHELL Poultry spray and larvicide" and "RABON oral larvicide" did not infringe the plaintiff's "Larvacide" trademark. First, Shell and Rabon clearly appeared as the trademark of the product. Second, the defendant's products actually killed insect larva, so the term "larvicide" accurately described the product. Like *Soweco*, defendant here uses its trademark Gatorade clearly. Unlike *Soweco*, however, Thirst Aid is not a description of Gatorade.

B&L Sales involved the slogan "Come on Strong" in the defendant's advertising campaign for men's clothing. Plaintiff had registered "Come On Strong" for use with its clothing line. The defendant, like defendant here, was a well-established manufacturer, so no actual confusion was created by its use of the slogan. More importantly, though, "Come On Strong" was "a common slang term." Accordingly, the court held defendant had used "Come On Strong" fairly. 421 F.2d at 354. This case differs from *B&L Sales* because "Thirst Aid" is not a common expression.

In *M.B.H. Enterprises v. WOKY*, 633 F.2d 50 (7th Cir. 1980), the plaintiff was a public relations firm that launched campaigns with slogans of "I love you" for cities. The defendant, a Milwaukee radio station launched an "I love you Milwaukee" promotion campaign. The court applied the fair use defense. "I love you" was an expression not subject to one party's exclusive use. *Id.*, 633 F.2d at 54. *See also Leathersmiths of London, Ltd. v.*

Alleyn, 695 F.2d 27 (2d Cir. 1982) (holding defendant's "TANTALUS Custom Leathersmiths and Bookbinders" fair use of "leathersmith"); *Kiki Undies Corp. v. Alexander's Department Stores, Inc.*, 390 F.2d 604 (2d Cir. 1968)(holding defendant fairly used "kicky" to described underwear and did not infringe upon plaintiff's "Kiki.").

Because the term "Thirst Aid" requires imagination to create the impression of an isotonic beverage, it is suggestive, not descriptive. Its suggestive nature precludes the application of the fair use defense.

Furthermore, even if Thirst Aid were descriptive, Thirst Aid in defendant's ads appears as a trademark. A trademark is a

> symbol or combination of symbols used by a source of services to identify itself to the public as the source of its [product] and to create in the public consciousness an awareness of the uniqueness of the source and of its [products].

M.B.H. Enterprises, 633 F.2d at 54. A trademark serves as a "vehicle for the carriage of a positive message concerning the product or service which it denotes." *Id.* "Gatorade" clearly identifies the product as being from a particular source. When defendant uses "Thirst Aid," however, it too identifies the product as being from a particular source.

Defendant argues that the term does not convey a particular source. Just because defendant used Thirst Aid in its advertisements and therefore for commercial purposes does not make the word a trademark. *Id.* Nor

does the prominent placement of Thirst Aid in the ads mean that it is used as a trademark. *Id.*; *B&L Sales Associates*, 421 F.2d 352; *Schmid Laboratories*, 482 F. Supp. at 20-21.

Thirst Aid is not a common phrase. The term "Thirst Aid" is the most prominent feature of some of defendant's advertisements. Each of the ads includes the statement "Gatorade is THIRST AID." Thirst Aid is a unique slogan. The way in which defendant uses the words Thirst Aid creates an impression that the slogan is uniquely associated with Gatorade.

The final requirement of the fair use defense is good faith. Plaintiff argues that defendant's knowledge of plaintiff's right to the Thirst Aid mark and its continued use of Thirst Aid establishes defendant's bad faith. It is undisputed that defendant was aware that plaintiff had registered Thirst Aid for use with soft drinks. Lannin Dep. at 10; Halaby Dep. at 3-6.

The fact that defendant's used Thirst Aid for commercial advantages does not conclusively show bad faith. *M.B.H. Enterprises*, 633 F.2d at 54. Although bad faith exists when the person using the mark attempts to palm his goods off as those of the mark's owner, that situation is not present here. Defendant has not tried to palm off Gatorade as Thirst Aid. Nevertheless, it may have destroyed the value of the mark to plaintiff and its licensees. *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365, 1371 (10th Cir. 1977). Because defendant used Thirst Aid as a trademark and not as a description of its product, the fair use defense is not available to defendant, and we need not decide the issue of defendant's good faith.

Defendant asserted in its answer that plaintiff had abandoned the mark. The parties did not brief the abandonment issue in their motions for summary judgment. Plaintiff's motion for summary judgment on the issue of infringement is granted. Defendant's motion for summary judgment on the fair use defense is denied. Trial date of June 3, 1985 at 9:30 a.m. to stand on the issues of abandonment and damages.

ENTER:

_____

Prentice H. Marshall
United States District Judge

DATED: May 29, 1985.

[On May 31, 1985, the Court entered the following order:]

> In the opinion and order of May 29, 1985 we prematurely granted summary judgment on the issue of infringement. Although defendant correctly argues that the burden of proof on the issue of likelihood of confusion is upon plaintiff, it appears highly unlikely that plaintiff will be unable to establish likelihood of confusion Defendant's motion to reconsider our decision on the fair use issue is denied. The order of May 29, 1985 is revised as follows: Plaintiff's motion for summary judgment on the fair use defense is granted. Defendant's motion for summary

judgment on the fair use defense is denied. The issue of infringement, abandonment and damages reserved for trial. Defendant's motion to certify immediate appeal under 28 U.S.C. § 1292(b) is denied.

Supreme Court, U.S.
FILED
MAR 25 1993
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No. 92-1400

In The

Supreme Court of the United States

October Term, 1992

THE QUAKER OATS COMPANY,

Petitioner,

v.

SANDS, TAYLOR AND WOOD COMPANY,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Seventh Circuit

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PARTIES TO THE PROCEEDING

All parties to the proceeding in the Court of Appeals are identified in the caption. Pursuant to Supreme Court Rule 29.1, Respondent states there are no parent or subsidiary corporations to be listed.

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No. 92-1400

In The

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THE QUAKER OATS COMPANY,

Petitioner,

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SANDS, TAYLOR & WOOD COMPANY,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Seventh Circuit

RESPONDENT'S BRIEF IN OPPOSITION

Respondent Sands, Taylor & Wood Co. ("Sands") respectfully requests that this Court deny The Quaker Oats Company's Petition for Writ of Certiorari, seeking review of the Seventh Circuit's opinion in this case. That decision is reported at 978 F.2d 947 (7th Cir. 1992) and is reprinted in Petitioner's Appendix.

STATEMENT OF THE CASE

For more than 70 years, the THIRST AID trademark has been used on beverage and food products. (App. 3a.)[1] In 1921 Joseph Middleby, Jr., Inc. commenced the use with "non-alcoholic maltless beverages, sold as soft drinks and syrups therefor," obtaining the first registration of the THIRST AID mark in 1922. (*Id.* at 56a.) After Respondent Sands acquired the Middleby company and the THIRST AID mark and registrations in 1973 (*id.* at 56a), Sands marketed products under the THIRST AID mark coast to coast, with a principal concentration in New England and upstate New York. (*Id.* at 58a.) Sands currently owns the THIRST AID mark and registrations, and licenses use of the mark for wholesale ice cream and fountain syrup goods to L. Karp & Sons ("Karp"). (*Id.* at 68a.)

In 1980, Pet, Inc. selected THIRST AID for use in testing a new isotonic beverage. (*Id.* at 60a.) Before using THIRST AID, Pet conducted a trademark search, determined Sands' ownership of the THIRST AID mark, and negotiated a license from Sands. (*Id.*) At the time, as today, Quaker's Gatorade product dominated the isotonic beverage market. (*Id.*) In a head-to-head test with Gatorade, the new Pet THIRST AID product obtained a 25 percent share of the isotonic beverage sales in the test market over a four-month period. (*Id.* at 61a.) Despite its success, Pet did not pursue the THIRST AID product because the company sold the Musselman juice facility

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[1] Citations to "App." are to the Appendix to the Petition for Certiorari.

where THIRST AID was manufactured, and the Pet license was terminated in June 1981. (*Id.*)

Thereafter, Sands and Karp (which took an assignment of the THIRST AID mark in 1981, with an exclusive license to Sands to use the mark for certain products at retail), pursued use of the THIRST AID mark in the beverage industry. Sands' President drafted letters proposing use of the mark "for a Gatorade type product" (*id.* at 62a), and in 1982 and 1983 approached a series of consultants, including Harvard Business School, for advice on expanding use of the mark at retail. (*Id.*) Starting in September 1983, a consultant for Karp approached Shasta Beverages and Tropicana Products to develop an isotonic beverage like that sold by Pet. (*Id.* at 63a.) In 1984, Tropicana concluded that "Thirst Aid as a brand name was right on strategy," but would be difficult to protect because of the Gatorade advertising campaign which prompted this suit. (*Id.* at 25a n.13.)

Petitioner The Quaker Oats Company ("Quaker") acquired Stokely Van Camp and its Gatorade product in 1983. (*Id.* at 65a.) In May 1984, Quaker commenced its first major advertising campaign for the Gatorade product: THIRST AID was superimposed over Gatorade, used on Gatorade packaging and served as the keystone of Gatorade's slogan, "Gatorade is THIRST AID for that deep down body thirst." (*Id.* at 14a, 67a, 123a.) Before launching its advertising campaign, Quaker "knew of plaintiff's trademark registrations," (*id.* at 95a), and knew of the Pet test. (*Id.* at 92a.) Unlike Pet, Quaker did not approach Sands to negotiate a license.

Sands objected to Quaker's use of the THIRST AID mark promptly after learning of the campaign. (*Id.* at 66a.) Quaker retained trademark counsel who advised, among other things, that the Gatorade name should be used in a dominant fashion in advertisements to avoid any likelihood that THIRST AID would be regarded as being used as a trademark. That "advice was not followed. Indeed, in many of defendant's advertisements, THIRST AID [was] the dominant expression." (*Id.* at 62a.) The Court found that Quaker's advertisements used the words "THIRST AID" as an "attention getting symbol." (*Id.* at 14a.) For the next six years Quaker spent more than $112 million on this Gatorade advertising campaign, cementing THIRST AID and Gatorade together in the public's mind. (*Id.* at 91a, 104a.)

Quaker now seeks a Writ of Certiorari to review the Court of Appeals' affirmance of the District Court's findings of fact that the THIRST AID mark was not "abandoned" and that Quaker's infringement was willful and in bad faith. Though the Court of Appeals reversed the District Court's award of profits and remanded for a redetermination of damages, Quaker also seeks review of the nature and scope of the yet to be determined monetary award.

REASONS FOR DENYING THE PETITION

I. THIS COURT SHOULD NOT GRANT CERTIORARI TO REVIEW UNEXCEPTIONAL FINDINGS OF FACT.

Certiorari should be denied because this Court does not second-guess findings of fact, which have not been set aside as clearly erroneous, in general commercial litigation. Abandonment and bad faith are quintessential fact questions. Having seen the witnesses and heard the testimony, the District Court made the factual findings that Sands had not abandoned the THIRST AID trademark and that Quaker's infringement was willful and in bad faith. (App. at 67a-84a, 94a-100a.)

As this Court has consistently held, "[w]e do not grant a certiorari to review evidence and discuss specific facts." *United States v. Johnston*, 268 U.S. 220, 227 (1925). This principle applies *a fortiori* here because all three judges on the Court of Appeals affirmed these findings as not clearly erroneous. (*Id.* at 15a-21a, 34a; 37a (Ripple, J., concurring), 38a (Fairchild, S.J., dissenting in part)); Fed. R. Civ. P. 52(a). *See Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 336 U.S. 271, 275 ("A court of law, such as this Court is, rather than a court for correction of errors in fact finding, cannot undertake to review concurrent findings of fact by two courts below in the absence of a very obvious and exceptional showing of error."), *reh'g granted on question of law*, 337 U.S. 910 (1949). Moreover, Quaker's petition for rehearing and suggestion for rehearing *en banc* did not receive a single vote from the Court of Appeals. (App. at 42a.)

The Seventh Circuit's affirmance of the District Court's conclusion that Sands' THIRST AID mark had not been abandoned is not surprising. Abandonment requires proof of two elements: 1) non-use and 2) intent not to resume use. 15 U.S.C. § 1127. The THIRST AID trademark is in use to this date, and both Sands and Karp undertook to further develop the mark in the beverage field in 1980, 1981, 1983, and 1984, including making specific proposals to Shasta and Tropicana for isotonic beverages. Moreover, even without demonstrable conduct to evince an intent to resume use in the beverage field, it is wholly logical, as both lower courts found, to conclude that the owner of the THIRST AID trademark would "bridge the gap" to expand into the isotonic beverage market given the public's interest in health and exercise in the 1980s. (App. 24a-25a.) Thus, the findings of the District Court were not clearly erroneous, and there is "no obvious and exceptional" error requiring correction by this Court.

The Seventh Circuit's affirmance of the District Court's bad faith finding is equally unremarkable. Quaker knew of both the THIRST AID trademark registrations and of the Pet test before proceeding with its THIRST AID campaign. When Sands objected to Quaker's use of THIRST AID, Quaker then hired trademark counsel, obtained counsel's advice and then ignored that legal advice not to use THIRST AID in a dominant fashion in Gatorade advertisements. (*Id.* at 67a.) Only last month, the Second Circuit held that facts such as these provided "sufficient evidence for the court's finding that [the infringer] acted in bad faith." *Nikon Inc. v. Ikon Corp.*, 1993 U.S. App. LEXIS 3245, at *13 (2d Cir. Feb. 25, 1993). All

three judges agreed that the District Court's findings of fact were not clearly erroneous.[2]

Quaker's suggestion that the marketing and advertising decisionmakers of national corporations need this Court's guidance as to how to behave is just not true. (Pet. at 12, 25.) Take Pet, Inc., for example. Pet, a national corporation and a competitor of Quaker, embarked on its THIRST AID strategy, ran a trademark search, discovered the Sands mark, approached Sands in good faith and negotiated a license. Even though Sands was then in dire financial straits, Pet respected Sands' federal trademark rights and the parties negotiated a solution for a product to compete with the market leader, Gatorade.

Quaker, in marked contrast, conducted a trademark search, learned of the THIRST AID registrations, was on notice of Sands' prompt objection, and proceeded with Gatorade's THIRST AID media blitz, using THIRST AID in many of its advertisements as a brand name in disregard of its own attorney's advice. Quaker's conduct was all the more reprehensible because Quaker – which knew of the Pet test – pursued the THIRST AID strategy to "pre-empt" the market and maintain its position of market dominance. (Pl. Exh. E-C; R. 338, Tr. 102.) Quaker's strategy had precisely this effect. Tropicana declined to go forward because of "Gatorade TV spots using Thrist [sic] Aid superimposed on the screen with the tag, 'Gatorade is Thirst Aid.'" (App. at 25a n.13.) This Court's

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[2] Quaker cites Part V of Judge Cudahy's opinion to suggest that Quaker's bad faith was marginal. (Pet. at 9-10.) Judges Fairchild and Ripple did not join in that part of the opinion and took an even "less charitable" view of Quaker's conduct. (App. at 37a (Ripple, J., concurring), 38a (Fairchild, S.J., dissenting in part)).

guidance is not needed to tell business people and the federal courts that Pet's corporate mores, which favor respect for federal rights and negotiation, are to be preferred to Quaker's, which foster disregard of federal rights and foment litigation.

Finally, any economic injury Quaker suffers is self-inflicted. In 1985, the District Court rejected Quaker's fair use defense. (*Id.* at 112a-125a.) Yet Quaker continued to run the THIRST AID campaign. That same year, the District Court opined that "it appears highly unlikely that plaintiff will be unable to establish likelihood of confusion." (*Id.* at 124a.) Still, Quaker aired the THIRST AID advertisements. Again in 1987, the District Court refused to reconsider its decision that Quaker's use of THIRST AID was not a fair use and again Quaker continued the THIRST AID campaign. Only when enjoined in 1990 after full trial on the merits did Quaker stop using the THIRST AID campaign – more than six years after it began.

II. THERE IS NO CONFLICT OF DECISION OR IN PRINCIPLE TO WARRANT REVIEW.

Intent to Use. Certiorari should be denied because there is no conflict of decision or in principle between the Seventh Circuit's decision that the THIRST AID mark had not been abandoned and decisions of other circuits. Consistent with the plain meaning of Section 45 of the Lanham Act, the Seventh Circuit merely followed the settled law of all circuits that two years of non-use of a mark is just "prima facie evidence of abandonment," a presumption that may be rebutted. 15 U.S.C. § 1127. (App. at

18a.)[3] That the owner of the THIRST AID mark was actively marketing the mark with a business plan for an isotonic beverage to Tropicana, Shasta and others belies any claim that the mark was "warehoused" and there was no intent to use it.

All of the decisions Quaker cites to claim a conflict applied these same legal principles but not surprisingly found abandonment given the radically different facts before them. For example, in *Silverman v. CBS Inc.*, 870 F.2d 40, 47 (2d Cir.), *cert. denied*, 492 U.S. 907 (1989), CBS had not used the "Amos 'n' Andy" trademark for 21 years and had no intent to resume use unless the social climate for the program changed. Similarly, in *AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1550-51 (11th Cir. 1986), *cert. denied*, 481 U.S. 1041 (1987), the mark had not been used at all between 1932 and 1980 – 48 years. And, in *Hiland Potato Chip Co. v. Culbro Snack Foods, Inc.*, 720 F.2d 981, 983-84 (8th Cir. 1983), the owner of the mark announced to its customers that the brand was discontinued and a third party relied on that announcement of abandonment to its detriment. Finally, *Exxon Corp. v. Humble Exploration Co.*, 695 F.2d 96, 104 (5th Cir. 1983), held that intent not to abandon does not create an intent to resume use, and remanded the case for a factual hearing on whether Exxon had "inten[ded] to resume use" of the mark – on which point both the District Court and the

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[3] *E.g., Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 939 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990); *Saratoga Vichy Spring Co. v. Lehman*, 625 F.2d 1037, 1044 (2d Cir. 1980); *Exxon Corp. v. Humble Exploration Co.*, 695 F.2d 96 (5th Cir. 1983), *on remand*, 592 F. Supp. 1226, 1230 (N.D. Tex. 1984); *Sterling Brewers, Inc. v. Schenley Indus., Inc.*, 441 F.2d 675, 680 (C.C.P.A. 1971).

Seventh Circuit decided as a factual matter against Quaker here.

Bad Faith. Quaker's claim of conflict between the Seventh Circuit's decision on Quaker's bad faith and the Second Circuit's decision in *W.W.W. Pharmaceutical Co. v. Gillette Co.*, 984 F.2d 567 (2d Cir. 1993), also fails. Both the Seventh Circuit here and the Second Circuit in *W.W.W. Pharmaceutical* simply concluded that the factual findings by the district courts in the cases before them were not "clearly erroneous." In view of Quaker's behavior and the facts in this case, the Second Circuit would certainly agree with the Seventh Circuit that the District Court's findings of fact were not clearly erroneous. *See Nikon Inc. v. Ikon Corp.*, 1993 U.S. App. LEXIS 3245, *13 (2d Cir. Feb. 25, 1993) (finding bad faith where, as here, there was "evidence that [defendant] rejected the advice of his counsel" and was aware of the resemblance of the marks at issue).

Quaker seems to argue that bad faith exists only when the defendant junior user intends to trade on the senior user's goodwill. (Pet. at 16-20.) If Quaker's characterization of the law were correct, a defendant could never act in bad faith in a reverse confusion case because, as the Seventh Circuit observed, "[i]n a reverse confusion case, . . . the defendant by definition is not palming off or otherwise attempting to create confusion as to the source of his product." (App. at 30a.) However, the law has been clear for some time that willfulness and bad faith can be established in a reverse confusion case. *E.g., Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365, 1373 (10th Cir. 1977), *cert. dismissed*, 434 U.S. 1052 (1978).

Here, within weeks of the adoption of Gatorade's THIRST AID campaign, Quaker knew that the owner of the THIRST AID mark intended (and had, in fact, already attempted) to expand into the "precise field" in which Quaker wished to use the mark. (App. 24a-25a.) "Here, both the marks and the goods – Quaker's Gatorade and the isotonic beverage that STW would market but for Quaker's actions – are virtually identical." (*Id.* at 27a.) Quaker spent hundreds of millions of dollars reinforcing the association between Gatorade and THIRST AID in the public mind. (*Id.* at 104a.) Quaker ignored the advice of its attorney and used THIRST AID in a dominant fashion as a trademark in its advertisements to cement this association. (*Id.* at 67a.) Quaker's corporate planning documents show that they pursued this strategy "to strengthen our position against the potential introduction of a major competitive product." (Pl. Exh. E-C at 2; R. 338, Tr. 102.) And Quaker was extraordinarily successful in achieving this goal to Sands', and the public's, detriment. The studies in evidence showed that 79.2 percent of consumers tested associated "THIRST AID" with Gatorade. (App. 27a.) As the District Court and Seventh Circuit recognized, Quaker's willful and deliberate behavior clearly constituted bad faith.

Finally, even if there were a conflict in decision and even if this Court disagreed with both lower courts and found Quaker's conduct to be in good faith, that would not change the liability finding below. The Seventh Circuit correctly deemed Quaker's intent irrelevant to the finding of infringement. (App. 30a.) While Quaker's bad faith may ultimately affect the amount of damages awarded, we will not know whether that is the case until

after the remand ordered by the Court of Appeals. At this stage, Quaker's bad faith only bears on the question of attorney's fees, because Quaker's bad faith was the predicate for the finding that this was an "exceptional case" warranting the award of attorney's fees under Section 35 of the Lanham Act, 15 U.S.C. § 1117(a). (It is not at all clear that the Questions Presented In the Petition For Certiorari encompass this issue.) Whether fees are awarded here is certainly not a question of sufficient import to warrant this Court's present review. Lacking any other outcome-determinative issue, this Court should decline to exercise its discretionary review.

Monetary Award. Quaker's final attempt to manufacture a certiorari conflict is predicated upon a misstatement of the Court of Appeals' holding. Quaker asserts that the Seventh Circuit authorized "a purely deterrent-based monetary award," "based solely on deterrence," "solely for purposes of deterrence," or based on "deterrence alone." (Pet. at i, 11, 20, 24.) But this is not what the Seventh Circuit held.

The Seventh Circuit *reversed* the award of profits and remanded "for a redetermination of damages." (App. 35a, 37a.) The remand is to consider "the interest of STW that has been infringed," Quaker's "unjust enrichment," and "the possible need for deterrence." (*Id.* at 35a, 38a (Fairchild, J., dissenting in part), 35a n.19.) Thus, the Seventh Circuit directed the District Court to consider all three of the traditional rationales for monetary relief in trademark cases – actual harm to the plaintiff, unjust enrichment of the defendant and deterrence.

Every Circuit that has addressed the unjust enrichment/deterrence rationale has accepted it. Along with the Seventh Circuit, the Second, Fifth, Ninth, Tenth and Eleventh Circuits have expressly recognized unjust enrichment and/or deterrence as justifications for an accounting for profits. *See, e.g., George Basch Co., Inc. v. Blue Coral, Inc.*, 968 F.2d 1532, 1537 (2d Cir. 1992), *cert. denied*, 113 S. Ct. 510 (1992); *Burger King Corp. v. Mason*, 855 F.2d 779, 781 (11th Cir. 1988); *Playboy Enters., Inc. v. Baccarat Clothing Co.*, 692 F.2d 1272, 1274 (9th Cir. 1982); *Maltina Corp. v. Cawy Bottling Co.*, 613 F.2d 582, 585 (5th Cir. 1980); *Blue Bell Co. v. Frontier Refining Co.*, 213 F.2d 354, 363 (10th Cir. 1954). The Sixth Circuit has implicitly recognized unjust enrichment. *See Nalpac, Ltd. v. Corning Glass Works*, 784 F.2d 752, 754-55 (6th Cir. 1986). The District of Columbia Circuit has expressly left open the possiblity that an accounting of profits may be based on unjust enrichment, *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 969 (D.C. Cir. 1990), and the First Circuit has cited unjust enrichment cases with approval. *Baker v. Simmons Co.*, 325 F.2d 580, 582 (1st Cir. 1963). The other circuits appear not to have addressed the issue.

Quaker also imagines a conflict between the circuits over whether "fraud, palming off, or actual harm" must be shown before there can be an accounting for profits under Section 35 of the Lanham Act, 15 U.S.C. § 1117(a). (Pet. at 22-23.) In the first place, Section 35 does not require any such showing. Moreover, it is ludicrous for Quaker to suggest that bad faith can only exist in the context of palming off. *See Ameritech, Inc. v. American Information Technologies Corp.*, 811 F.2d 960, 964 (6th Cir. 1987) (same principle that condemns palming off condemns

reverse confusion). Furthermore, even if there is disagreement between the circuits, Quaker's intentional behavior in this case would satisfy any standard in any circuit and thereby justify a monetary award.

The Seventh Circuit did not overturn, and, in fact, confirmed, the District Court's findings that Quaker acted willfully and in bad faith when it infringed on Sands' trademark. Apart from Quaker's bad faith, there can be no dispute that Sands suffered actual harm. At the very least, Sands was denied "the royalties Quaker would have had to pay STW for the use of the THIRST AID mark had it recognized the validity of STW's claims." (App. 35a.) More broadly, Sands lost the business opportunities of pursuing an isotonic beverage with Tropicana, Shasta and others. (App. 25a n.11, 106a.) While these lost opportunities may not constitute actual harm to justify a damage award separate from profits, (*id.* at 106a), there can be no question that Gatorade's television advertising interfered with negotiations to develop an isotonic beverage with the THIRST AID mark and that Sands was actually harmed. (App. 25a.)

In sum, the Seventh Circuit's decision is fully consistent with the plain meaning of Section 35 of the Lanham Act and those decisions which suggest that actual harm or willfulness may be necessary for an award of monetary relief.

III. THE JUDGMENT BELOW IS INCOMPLETE AND NOT RIPE FOR REVIEW.

Last, certiorari should be denied insofar as Quaker seeks review of the rationale for and scope of a monetary

award because the proceedings are incomplete. As noted, the Seventh Circuit reversed the profits award and remanded "for a redetermination of damages." (App. at 35a.) That redetermination is to look at "the extent of Quaker's unjust enrichment and the interest of STW that has been infringed" and to consider whether a "reasonable royalty" is appropriate. (*Id.* at 35a & n.19.) At this point, we do not know whether the District Court will award profits or damages, how much or on what theory. If the monetary relief aspects of the case are so important as to require this Court's attention, this Court should at least have the benefit of a final determination of the nature and scope of that monetary relief. *The Monrosa v. Carbon Black Export, Inc.*, 359 U.S. 180, 184 (1959) ("Resolution . . . can await a day when the issue is posed less abstractly.").

In sum, "because the Court of Appeals remanded the case, [the case] is not yet ripe for review by this Court." *Brotherhood of Locomotive Firemen and Enginemen v. Bangor & Aroostoock R.R. Co.*, 389 U.S. 327, 328 (1967).

CONCLUSION

Quaker's plea for review in this Court sounds in confession and avoidance. Quaker's confession is that it infringed Sands' THIRST AID trademark; certiorari is not sought to review the Court of Appeals' likelihood of confusion conclusion. Quaker's avoidance is the defense that Sands forfeited its mark by abandonment and further that Quaker's corporate behavior was not really as bad as four federal judges have adjudged it to be. Quaker's

defense is fact-bound and the facts have been rationally decided against it.

Presenting no conflict of decision of law, question of national public importance, or final money judgment, the Petition for Certiorari should be denied.

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No. 92-1400

IN THE
Supreme Court of the United States
OCTOBER TERM, 1992

THE QUAKER OATS COMPANY,

Petitioner,

v.

SANDS, TAYLOR & WOOD COMPANY

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Seventh Circuit

REPLY BRIEF FOR PETITIONER

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REPLY BRIEF FOR PETITIONER

With respect to each of the questions presented, the petition demonstrates that other courts of appeals would have reached a result that differs from the judgment below. That is the quintessence of a conflict among the circuits. Moreover, the conflicts involve important, recurring questions of federal trademark law with enormous practical consequences and policy ramifications. Respondent's brief in opposition relies on

two principal tactics in an effort to avoid this Court's review:

- distorting the record, for example, by relying on findings by the district court that the Seventh Circuit expressly rejected; and

- ignoring decisions cited in the petition that conflict with the decision below.

These tactics confirm that the judgment of the Seventh Circuit in this case cannot be supported on its stated terms and that the growing doctrinal split among the circuits warrants this Court's prompt attention.

1. There is no merit to respondent's contention that the petition raises issues of fact. Br. in Opp. 5-8. To the contrary, the petition addresses only the legal standards employed by the court of appeals, as it is those standards that conflict with decisions of other circuits. The point is that other courts of appeals interpret the Lanham Act in ways that preclude the disposition of the court below. Far from challenging any factual determinations, petitioner poses strictly legal issues for this Court to adjudicate on the basis of the facts that informed the decision below.[1]

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[1] Conversely, it is respondent that retreats from the facts set forth in the Seventh Circuit opinion by repeatedly referring to district court findings that the court of appeals expressly rejected or held to be irrelevant to its analysis of the law. For example, respondent recites (Br. in Opp. 3, 6) efforts it allegedly undertook to use the mark during the period when the mark was owned by Karp (December 1981-

(continued...)

2. There is no merit to respondent's denial of the existence of a conflict on the abandonment issue: whether events subsequent to the Lanham Act's two-year statutory presumption may resuscitate trademark rights where the owner admittedly had no intention to resume use and the mark had not been used in a relevant market for more than two years? The Seventh Circuit answered that question in the affirmative. In contrast, the Federal Circuit held in *Cerveceria Centroamericano, S.A. v. Cerreceria India, Inc.*, 892 F.2d 1021 (Fed. Cir. 1989), that subsequent events cannot revive an abandoned mark. Respondent ignores that conflicting case. *See also AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531 (11th Cir. 1986), *cert. denied*, 481 U.S. 1041 (1987) (holding that prior owner's non-use preceding assignment of mark is dispositive of abandonment issue, a conflicting rule of law respondent also ignores).

Instead of confronting this split in the circuits, respondent distorts the record to deflect attention from flaws that, in other circuits, would require a finding of abandonment as a matter of law. Central to respondent's theory is the contention that within two years after the last use of the mark on a beverage, the owner of the mark evidenced its intent to resume use. Taking the record as set forth in the opinion below, and not as respondent would revise it, four critical facts are clear:

- the last use of THIRST-AID on a beverage was the Pet test-marketing,

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[1] (...continued)
September 1984), but the Seventh Circuit expressly held that the district court's reliance on such evidence was error. Pet. App. 18a.

which ended no later than November 1980 (Pet. App. 3a-4a, 72a);[2]

- Karp owned the mark from December 1981 through the commencement of Quaker's advertising campaign for GATORADE in May 1984 (Pet. App. at 4a-5a, 17a-18a);

- when Karp acquired the mark it had no intent to use THIRST-AID on a beverage (*id.* at 18a);

- the earliest evidence offered to show an intent by Karp to resume use of the mark was in September 1983 -- almost three years after the last use on a beverage (*id.* at 18a, 62a, 74a n.5).

Accordingly, the decision below is premised upon a gap of three years between the last use and any evidence of an intent by the owner of the mark to resume use. The reliance solely on subsequent events to revive an unused, abandoned mark is precisely the aspect of the decision below that conflicts with other courts of appeals. Pet. 13-15.

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[2] Rather than refer to the last use by Pet in late 1980, respondent notes that Pet's license expired in June 1981 (Br. in Opp. 2-3). Although last use is the relevant legal benchmark, the abandonment issue remains the same even under respondent's formulation since more than two years of non-use followed with no intent by the owner of the mark to resume use.

Preferring to ignore this conflict -- and the factual deficiency in its proof -- respondent focuses on evidence designed to show that *it* rather than Karp had an intent to resume use before the Lanham Act's two-year period resulted in abandonment.[3] For this, respondent relies exclusively on the district court opinion (*see* Br. in Opp. 3, citing Pet. App. 62a, 63a). But, the court of appeals expressly held that "the district court erred in focusing on the intent of [respondent] rather than of Karp during the three years that Karp owned the marks." Pet. App. 18a.

Recognition that Karp, and not respondent, owned the mark at the relevant time also defeats respondent's tortured denial of a conflict. For example, the only basis upon which respondent attempts to distinguish *Hiland Potato Chip Co. v. Culbro Snack Foods, Inc.*, 720 F.2d 981 (8th Cir. 1983), is that the defendant in that case "relied" on the mark owner's statement of abandonment. Here, too, as the court of appeals recited, Quaker contacted the mark owner, Karp, prior to airing the GATORADE advertisements and learned that Karp was not using the mark on any retail product. Pet. App. 5a. Far from being distinguishable, *Hiland* confirms that other courts of

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[3] Br. in Opp. 3, contending that respondent and Karp "pursued use [of the mark] in the beverage industry," but citing evidence only of respondent's intent prior to 1983 and noting no such intent by Karp (the owner of the mark) until "[s]tarting in September 1983." *See id.* at 6 (respondent argues that "both Sands and Karp undertook to further develop the mark in the beverage field in 1980, 1981, 1983 and 1984" but cites no evidence relating to Karp (the owner of the mark) prior to September 1983).

appeals would have reached a different result in this case.[4]

3. Respondent's arguments to dissuade this Court from reviewing the bad faith issue are similarly based on re-writing the Seventh Circuit opinion and ignoring conflicting precedents. In respondent's view, bad faith is merely a question of fact subject to review under a clearly erroneous standard. Br. in Opp. 10. But evidentiary facts must be assessed in accordance with rules of law and it is the rule of law for determining bad faith that the petition addresses. The Seventh Circuit found that bad faith could exist even where a defendant lacks any intent to trade on a plaintiff's good will and reputation and does not intend to cause confusion. As even the court below recognized, other courts of appeals have held that the correct "bad faith" standard under the Lanham Act requires an intent to appropriate the plaintiff's good will associated with the trademark. Pet. App. 31a-32a. That is the clear holding of *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400 (9th Cir. 1993), another conflicting case that respondent ignores.

Nor is there any merit to respondent's attempt to gloss over the conflict between the decision below and *W.W.W. Pharmaceutical Co. v. Gillette Co.*, 984 F.2d 567 (2d Cir. 1993). Comparison of the two cases reveals that the Seventh Circuit regarded as evidence of "bad faith" factors the Second Circuit cited as negating bad faith. Similarly ineffective is respondent's effort to downplay the fundamental conflict between the Seventh and Second Circuits on this issue by reference to *Nikon Inc. v. Ikon Corp.*, 1993 U.S. App. LEXIS 3245 (2d Cir. Feb. 25, 1993),

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[4] Indeed, the period of non-use by the mark owner was far shorter in *Hiland* than it was here.

issued subsequent to the filing of the petition. As the Second Circuit opinion makes clear, the defendant in *Nikon* had engaged in "passing off" by representing that it was a division of mark owner Nikon. *Id.* at *12. *Nikon* confirms that the split in the circuits on the legal standard for assessing bad faith in a trademark case is genuine and continues to affect a growing number of pending cases.

This split of authority has an undeniable practical impact on all companies that advertise products, as evidenced by respondent's attempt to contrast Quaker's conduct with that of Pet. In respondent's view, Pet sought to use THIRST-AID as the name of a product, "ran a trademark search, discovered the [respondent's] mark, [and] approached [respondent] . . . ." Br. in Opp. 7. But the facts found below that form the basis for the Seventh Circuit's judgment, show that Quaker satisfied all the key components respondent lauds on Pet's part. Quaker (which did not seek to use THIRST-AID as a product name, but as part of an advertising slogan, and which had obtained an opinion of counsel that its proposed slogan was descriptive (Pet. App. 4a, 34a)) ran a trademark search, discovered the **Karp** mark, approached **Karp** and learned **Karp** was not using the name on any retail product. Respondent, of course, was not then the owner of the mark. Having contacted the owner -- **Karp** -- no rule of law should require Quaker also to contact respondent whose name, the court of appeals found, "does not appear on any of the federal registrations that the search turned up, nor does it appear anywhere in conjunction with Karp's name." *Id.* at 34a n.18. The lack of any principled basis for discerning good faith from bad faith is a critical flaw in the decision below that creates chaotic uncertainty for the lower courts and for all commercial decisionmakers.

4. Respondent's opposition to certiorari on the question whether the Lanham Act permits any award of profits where plaintiff suffered no damages and the defendant did not engage in fraud, palming off or trading on plaintiff's good will is based on a fundamental distortion of the decision below. Directly contradicting the record, respondent states "there can be no dispute that Sands suffered actual harm." Br. in Opp. 14. But the district court expressly rejected all of respondent's claims for "actual damages," found no "actual harm" (Pet. App. 105a, 106a), and dismissed each of respondent's claims for compensatory damages. *Id.* at 105a-109a. Respondent filed no cross-appeal. Accordingly, the court of appeals did not consider, much less overturn, the district court's finding of no damage or harm to respondent (indeed, in the absence of a cross-appeal the court of appeals lacked jurisdiction to do so).

It is respondent that must re-write the record and the decision below to avoid the inevitable conclusion that a conflict exists among the circuits on the remedies available under the Lanham Act. In cases respondent ignores, other courts of appeals have rejected claims for an accounting of profits in the absence of actual damages, fraud, palming off, or intent to exploit the mark owner's good will. Respondent has no response to the following conflicting cases cited in the petition: *Caesar's World, Inc. v. Venus Lounge, Inc.*, 520 F.2d 269 (3d Cir. 1975) (denying accounting absent proof of actual damage or actual profits due to infringement); *Foxtrap, Inc. v. Foxtrap, Inc.*, 671 F.2d 636 (D.C. Cir. 1982) (denying accounting absent showing of fraud or palming off); *Frisch's Restaurants, Inc. v. Elby's Big Boy*, 849 F.2d 1012 (6th Cir. 1988) (denying accounting absent showing of trading on goodwill or profits due to infringement); *Lindy*

Pen Co. v. Bic Pen Corp., 982 F.2d 1400 (9th Cir. 1993) (profits proper where infringement is willfully calculated to exploit the advantage of an established mark); *Quabaug Rubber co. v. Fabiano Shoe Co.*, 567 F.2d 154 (1st Cir. 1977) (denying accounting because no showing of diverted sales or financial loss); *Raxton Corp. v. Anania Assocs.*, 668 F.2d 622 (1st Cir. 1982) (denying accounting because plaintiff and defendant do not compete and no actual damages); *Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l, Inc.*, 951 F.2d 684 (5th Cir. 1992) (no accounting in absence of palming off). Moreover, respondent totally misreads *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968-69 (D.C. Cir. 1990), as having "left open" precisely the question that court resolved in conflict with the decision below.

Finally, there is no merit to respondent's contention that the Court must await a final quantification of the profits to be awarded in this case before considering the third question presented in the petition. The question presented, and the issue on which the courts of appeals are divided (*see* Pet. 20-26), is whether the Lanham Act permits an accounting of profits in the absence of actual harm, fraud, palming off or appropriation of goodwill. That issue does not turn on the quantum of profits awarded in a particular case; the issue remains the same whether the district court recalculates the award of profits at $20,000 or $2 million. The legal issue presented is one which, if decided in conformity with the decisions of this Court and most courts of appeals, will terminate this case in its entirety. The conflict, which the Seventh Circuit acknowledged, does not require further ventilation in the circuits to warrant this Court's review.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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